



Palestine Economic Policy Research Institute

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About the GEM Research Project

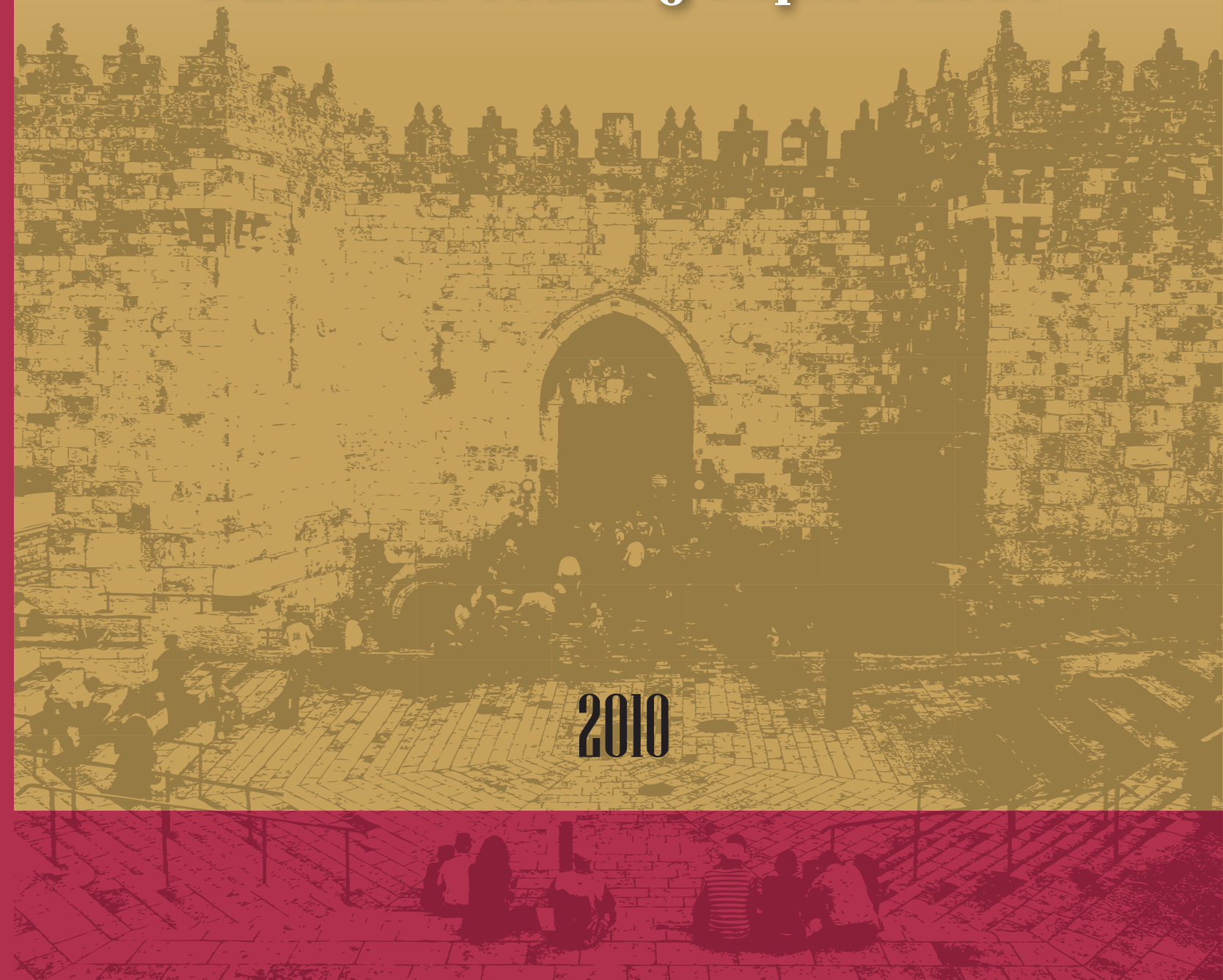
The Global Entrepreneurship Monitor is a research initiative involving hundreds of researchers in more than 75 countries worldwide who share a concern for understanding entrepreneurship and its dynamics. The annual GEM global report provides analyses of the level of entrepreneurial activity and related indicators in a variety of developed and developing economies to advance the knowledge base about this important field of inquiry, and to identify policies that may help governments and economic development stakeholders to strengthen the role of entrepreneurship in creating jobs and driving innovation and growth.

In 2009, GEM data were collected in 8 new countries from the Middle East and North Africa, bringing the total of MENA countries that have participated in the GEM project to 13. The International Development Research Centre funded the involvement of seven new countries (Algeria, Jordan, Lebanon, Morocco, Palestine, Syria, and Yemen).

Source: from the Executive Summary of the GEM-MENA Regional Report 2009 (Middle East and North Africa), IDRC.-

The Global Entrepreneurship Monitor (GEM)

Palestine Country Report 2009



The Palestine Economic Policy Research Institute (MAS)

Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

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MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

- ♦ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ♦ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ♦ Disseminating up-to-date socio-economic information and research results.
- ♦ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ♦ Strengthening economic and social policy research capabilities and resources in Palestine.

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Palestine Economic Policy Research Institute

The Global Entrepreneurship Monitor (GEM): Palestine Country Report 2009

2010

The Global Entrepreneurship Monitor (GEM): Palestine Country Report 2009

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Foreword

Successful economic development can only come about with the growth and maturity of entrepreneurship. While governments can design and implement sound economic policies to induce and facilitate entrepreneurship, it is the entrepreneurs themselves that represent the building blocks of economic progress. It is through the economic activities of ordinary men and women that GDP is increased, opportunities are expanded and living standards are raised. Through the establishment and expansion of new businesses, entrepreneurs allow for economic diversification, increases in competition and productivity and the enrichment of the labour market.

The Global Entrepreneurship Monitor (GEM) Consortium is an international research initiative that was established to study this most critical of economic activities. It is hoped that the following research, including the collection and presentation of harmonized data from numerous countries, will allow for the identification and development of superior economic policies; policies designed to foster and support entrepreneurship rather than stifle it. Specifically, the consortium is interested in quantifying and analysing the differences between levels of early-stage entrepreneurial activity between countries; identifying the factors that determine levels of early-stage entrepreneurial activity; and proposing policies for the enhancement of levels of entrepreneurial activity. More importantly, however, GEM national reports provide policy makers with a clear and academically credible evaluation of levels of national entrepreneurial activities and the factors constraining or promoting such activities.

Whilst understanding entrepreneurship should be a priority for all countries, the importance of entrepreneurship is particularly acute in Palestine. Unemployment within the Occupied Territories is high; in 2009 unemployment in the Palestinian Territory had reached approximately 25% in the West Bank and 45% in the Gaza Strip.¹ A significant and a sustainable reduction in current unemployment levels can only be achieved through the development of a diversified economy that encourages entrepreneurship and economic inclusion. Moreover, as the PA moves forward with its ambitious plans to establish a legitimate and sovereign Palestinian state, sound economic policy will become ever more important; Palestinian entrepreneurship will be vital if the people of the OPT are to throw off the shackles of aid dependency and develop an economy and political system that is financially self-supporting. Thus there exists a pressing need to better understand the character of domestic entrepreneurship, the factors constraining it and the potential means of improving it.

MAS would like to thank the IDRC for supporting the first publication of a GEM National Report for Palestine. We also would like to thank Daniela Andreevska and Daniel McCurdy for reviewing and editing the study. We hope to keep this vibrant relationship alive and continue producing a yearly GEM country report on Palestine.

Samir Abdullah
Director General

¹ "Labour Report" (Palestinian Central Bureau of Statistics, 2009)

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The Palestine Economic Policy Research Institute (MAS) wishes to thank IDRC for providing data for the seven GEM-MENA countries.² The data is used as a benchmark in order to compare MENA-7 data to data on Palestine. MAS is also thankful to the consortium of GEM national teams who participated in the 2009 round. We are grateful to Daniel McCurdy and Daniela Andreevska for their effort in reviewing the first draft of this manuscript.

² These countries are: Algeria, Jordan, Lebanon, Morocco, Palestine, Syria, and Yemen. These countries will be referred to in the text as MENA-7 countries.

Acronyms

APS	Adult Population Survey
BB	Baby Business
DOI	Declaration of Independence
EB	Established Business
EFC	Entrepreneurial Framework Conditions
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
IDRC	International Development Research Center
ILO	International Labor Organization
LDC	Less Developed Countries
KAB	Know About Business (program)
MAS	Palestine Economic Policy Research Institute
MoEHE	Ministry of Education and Higher Education
MENA	Middle East and North Africa
NGOs	Not Governmental Organizations
PNA	Palestinian National Authority
PPP	Purchasing Power Parity
TEA	Early-Stage Entrepreneurial Activity Rate
UNCTAD	United Nation Conference on Trade and Development
US	United States
VAT	Value Added Tax

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Executive Summary

GEM's Perspective

The framework of entrepreneurship adopted by GEM is based on a multi-stage process that attempts to discover entrepreneurs and their demographic, social, cultural, and economic attributes. According to the GEM model, entrepreneurship is an important source of job creation and economic growth. GEM's perspective studies entrepreneurship in three different stages: nascent business (that has not paid wages for more than 3 months), baby business (less than 42 months old), and established business. The adult population survey (APS) addresses different questions concerning the factors and impacts of entrepreneurship with a sample of about 2000 people from the whole population, including entrepreneurs in the three stages of entrepreneurship.

Palestinian Entrepreneurship in a Regional and a Global Context ³

Palestine is classified as a factor-driven economy⁴; it exhibits a low early-stage entrepreneurship rate (the proportion of the adult population who are involved in early stage entrepreneurial activity is around 9%) among factor-driven countries, and among the MENA seven GEM countries (14.7%). The low participation rate in early-stage entrepreneurship (TEA) is due to the low rate of involvement in nascent businesses (3% for Palestine and 8.6% for the MENA-7 countries). In the other stages of entrepreneurship, Palestine exhibits rates closer to that of the MENA-GEM countries (baby business rate is 6% for Palestine and 5.8% for the MENA-7 countries; established business rate is 6.9% for Palestine and 8.2% for the MENA-7 countries).

The rural-urban distribution of early-stage entrepreneurs in Palestine is more skewed in favour of rural localities; almost 70% live in rural areas compared to 42% for MENA-7.

In Palestine, new businesses do not get as much media coverage as in the rest of MENA-7 countries. The APS found that 53% of new businesses receive major media coverage, while the same figure stands at 65% in the MENA-7 countries. Almost 39% feel that fear of failure prevents them from starting a business, which is higher than in the MENA-7 countries (31%). These trends position Palestine's rates below those for the MENA-7 states.

The APS estimates the average start-up capital requirement at US\$42,340 in Palestine and US\$55,772 in the MENA-7 countries.

Lower opportunity motivation is found in Palestine (61.7%) than in the MENA-7 (66.6%). Early-stage entrepreneurs are usually motivated by opportunity reasons, while the difficult economic conditions in Palestine make the necessity motive the dominant one. Business discontinuation rate is found to be significantly higher in Palestine than in the MENA-7 countries in all stages of entrepreneurial activity. Palestinian entrepreneurs export less of their products than entrepreneurs in the MENA-7 countries. Among early-stage entrepreneurs in Palestine, 90.8% do not export any of their products (55.08% in the MENA-7 countries). In the case of Palestinian established business entrepreneurs, 81.28% do not export, compared to 46.9% in the MENA-7 countries. Similarly, job growth expectations in Palestine are significantly lower for both early-stage and established business entrepreneurs than in the MENA-7 countries.

Profiling Entrepreneurship in Palestine

Palestine, like the other 54 GEM countries, exhibits the highest early-stage entrepreneurial activity prevalence rates in the age category 25-34 years for both males and females.

Education has different impacts on the gender gap in entrepreneurship. Early-stage prevalence rates are 13.6% for males and 3.4% for females. Moreover, males find more opportunity reasons to start their businesses than females. Although TEA rates increase

³ (The authors have used GEM data on Palestine, Lebanon, Jordan, Syria, Algeria, Morocco, and Yemen. The following results and interpretation of the data is the sole responsibility of the authors.)

⁴ The GEM report classifies countries into: factor-driven economies, which are extractive in nature; efficiency driven, which rely on scale intensity for development; and innovation driven which are hi-technology economies.

with education for both, the gender gap grows together with the education level. In other words, the share of females among early-stage entrepreneurs decreases as the education level increases. The implication here is that the gender gap widens with education; in order to reduce the gap, policies such as training, financing, and social networking need to be adopted to increase female entrepreneurship.

Concerning primary and secondary school training on starting a business, responses from the entrepreneurs reveal that only 11% have taken part in such training at the TEA level and 3.3 % at the EB level. These figures change to 30% and 21% respectively for participating in training after school. Thus, the majority of the population, including entrepreneurs, has not received any business training.

Early-stage entrepreneurial activity prevalence rates and established business ownership rates also vary by income groups (upper, middle, and lower-third). For males, TEA rates increase with increased income level. For females, on the other hand, TEA rates decrease for the upper 33% income group from 5.2% to 2.9%. This may be attributable to having secured jobs or due to the lower need to start a business. Early-stage entrepreneurial activity rates are higher for those who are married than for single individuals. Gender differences are also evident for divorcés, 0% for women and over 25% for men. For both males and females, early-stage entrepreneurship is higher in rural areas than in urban areas.

Labour Market Conditions and Entrepreneurial Activity

Individuals choose to start a business or employment based on the expected benefits and costs. Individual preferences were revealed by respondents by answering a question on their preferred choice. The APS finds that nearly 46% of the population prefers to own a business, which shows a strong preference for independence and entrepreneurship. The second option is working in the large public sector, which provides job security and retirement benefits. Otherwise, very few people choose employment in the private sector. Whether in the early- or established-business stage,

entrepreneurs prefer to own a business, followed by to work in the public sector.

Concerning the status of the labour market, around 51% of the adult population is not in the labour force (homemakers, retired, or students). The remaining 49% are distributed as full-time employed (21%), part-time employed (8%), self-employed (9%), and unemployed (11%). Gender differences are significant, since the majority of females live and work at home (71% and 0% for males). Unemployment is higher among males than females (18% for males and 3% for females) and so is self-employment (15% for males and 3% for females). The distribution of entrepreneurs by labour force status shows that the highest proportion is for self-employed (51% of early-stage entrepreneurs and 73% of established business owners), followed by full-time employment (23% of early-stage entrepreneurs and 17% of established business owners).

The APS shows that the actual distribution of the employment sector is either in the public sector or in private micro-enterprises. For the entrepreneur population, EB entrepreneurs work mostly in private micro-enterprise, while TEA ones are nearly equally split between the public sector and micro-enterprises.

Financing Entrepreneurship

Start up capital is a crucial factor that affects the viability of entrepreneurial businesses in Palestine. While the mean start-up capital requirement is estimated at US\$42,320, 51.4% of enterprises need less than US\$10,000 to open. Only around 10% require a start-up capital of more than \$100,000. Start-up capital varies by gender, education, income level, and age. Males need 1.18 times the population average of start-up capital, while females need 0.2 times the population average. Those who have a post-secondary education⁵ need 2.04 times the population mean, while the other levels of education need less than half. Moreover, the upper 33rd income percentile needs 1.34 the population average, while the lowest 66th percentile needs less than 0.29 times the population average. The middle age category needs 2.17 times the population

⁵ This refers to individuals with 13-14 years of education, 1 or 2 year diplomas.

mean, and the ratio grows from 0.12 to 1.18 as age increases.

Palestine's level of self-financing is low with a self-financing ratio of total start-up capital requirement of only 39%, leaving 61% for external sources of financing. The main external financing sources are comprised of immediate family members (40.29%), followed by microfinance providers (16.11%), friends and neighbours (12.92%), and banks (8.08%).

As reflected in Figure 6.2 later in the paper, the general trends shows that nascent entrepreneurs are really ambitious and optimistic regarding the returns they expect to generate in the next ten years. 37.5% of Palestinian nascent entrepreneurs expect to double their investment. The calculated weighted expected average demonstrates that Palestinian nascent entrepreneurs have an expected return equivalent to 37%.

In Palestine, the prevalence rate of adults who have, in the past three years, personally provided funds for a new business started by someone else is only 1.5%, 2% of which are men and 1% women. This prevalence rate is clearly below the global and the regional averages. In absolute values, the invested amounts are relatively small - around 73% of informal investments are less than US\$10,000 in the past three years, although the average stands at about US\$8,400 a year.

Perceptions

Perceptions and cultural context are seen as factors for entrepreneurship in the GEM's perspective. In Palestine, around 42% of 18-64 year-olds see themselves as being prevented from starting a business due to a fear of failure, compared to the average of 35% in factor-driven economies. Additionally, fewer Palestinian entrepreneurs have the perception that they have the knowledge, skills, and experience to start a business (56% compared to an average of 66% in factor-driven economies). Around 50% predict good opportunities for starting a business in the next 6 months, which is almost equal to the factor-driven economies average. However, although entrepreneurship is considered a good career choice (88%) and the level of intent to start a business in the next three years is acceptable

(26%), Palestinians are not exposed frequently enough to entrepreneurial success-stories in the media (78%). Even though this is almost identical to the factor-driven economies, Palestine ranks among the lowest in the MENA region. All these factors are found to have an impact on the intention to start a business in the next three years, which explains the low intention to start a business in Palestine (26.2%) relative to the mean of factor-driven economies (33%).

Sources of Advice

Palestinian early-stage entrepreneurs seem to ask for advice relatives and friends rather than skilled sources. For example, 64% of nascent entrepreneurs and 51.2% of baby-business owners ask their parents for advice, but only 42.7% of nascent entrepreneurs and 19.3% of baby-business owners ask for advice somebody with business experience.

Recommendations

Based on the findings of the report, the authors recommend that policies that encourage entrepreneurship be divided into short-run and long-run actions.

In the short run, more attention needs to be given to the following areas:

- ✧ It was found that the main reasons for business discontinuation are profitability rates and financing problems. As a result, research is needed to identify and eliminate the factors that lead to low profitability. Entrepreneurial financing programs are also necessary to facilitate business survival.
- ✧ Programs that encourage training, particularly for females, in order to close the entrepreneurial activity gap, need to be initiated.
- ✧ Because the Israeli occupation plays a crucial role in discouraging entrepreneurship, an investigation into the nature of the inhibiting factors should be launched in order to limit their impact.
- ✧ More work is required in export orientation and external marketing, as very few firms have a substantial proportion of their customers outside the country.
- ✧ Effort is to be made to exploit opportunities in the urban centres, to encourage high technology entrepreneurial

activity, and to fulfil the desire of being the owner of a business.

- ✧ The idea of having business counselling by professionals needs to be promoted.

In the long run, the report recommends:

- ✧ More entrepreneurial programs in the educational system.
- ✧ Increase in media coverage of entrepreneurs to solidify the profile of entrepreneurs and more particularly of female entrepreneurship.
- ✧ Funding training programs on starting businesses.

1. Introduction

Many of the GEM country reports begin by introducing concepts and definitions, most import of which is entrepreneurship. There are various meanings of entrepreneurship, such as the ability to recognize opportunities, take initiative and risk, create new entities and products, and contribute to the entrepreneurs' and society's well being. GEM's definition of entrepreneurship focuses on the creation and sustainability of new businesses.⁶ It is envisaged that entrepreneurship creates jobs, enhances efficiency by the introduction of new technologies and ways of production and, as a result, contributes to the growth and development of a country.

Palestine is new to the GEM consortium community, which was started in 1999 with 10 country members⁷; the GEM 2009 Global Report includes 54 countries and is expected to rise. The creation and growth of the GEM consortium aims at tracking entrepreneurship indicators, making cross country comparisons, and monitoring variables that contribute to the enhancement of the process in a way that leads to sustainable development.

Since this is the first year in which the Palestine country report is being launched, it is not yet possible to track entrepreneurial activity over time. An alternative approach to study entrepreneurship in Palestine is to analyze indicators from two perspectives: the first is to view Palestinian indicators from a regional perspective, in which seven GEM MENA country indicators are used as a benchmark to compare Palestinian figures.⁸ The second is to examine Palestine within the limits that are imposed by the challenges it faces and analyze entrepreneurship indicators within the boundaries of those constraints. Although we will explain GEM's model of entrepreneurship (covered in the next chapter) afterwards, we will focus on *how Palestinian*

economic and political circumstances affect entrepreneurship in three dimensions.

✧ First and foremost, Palestine is a country under occupation, not only physically and politically segregated but also economically blockaded in various aspects. Prime Minister Fayyad's announcement during August 2009, that "ending the occupation [and] establishing the state" in two years, was based on the Declaration of Independence (DOI) of 1988 and the Basic Law of 2003. Some stipulations of this declaration are that:

1. Settlements (colonies) are a major impediment to peace
2. State building emphasizes of provision of public goods equitably and effectively
3. Independence of the judiciary
4. Separation of powers, democracy, and participation
5. Shelter, education, security and health are basic rights.

The state building plan has the overriding goal of ending the occupation and restoring statehood. Along with building institution for a functioning Palestinian state, the plan calls for fiscal stability by broadening the tax base and putting expenditure controls in place.

✧ The second dimension will give special attention to labor market conditions during the fourth quarter of 2009 when unemployment rose to 39.3% and 18.1% in the Gaza Strip and West bank, respectively⁹. Political unrest, closures, and restricted access to the Israeli labor market constitute a few of the severe shocks and labor market distortions imposed by occupation. As a result, many Palestinians resort to self employment to avoid labor market uncertainties. Gender differences are stark in labor force participation rates where female participation is very low compared to that

⁶ GEM looks at entrepreneurship as a process beginning with nascent entrepreneurship and ending with business discontinuation. The birth mark of entrepreneurship is when a business begins paying wages; a illustration of the process can be found in the GEM 2009 Global report.

⁷ The 10 countries are the G7, Denmark, Finland, and Israel.

⁸ The seven countries are: Algeria, Jordan, Syria, Yemen, Lebanon, Morocco, and Palestine.

⁹ For additional details on the Palestinian economic environment, the reader is referred to MAS Economic and Social Monitor number 20, 2010

of males; this, however, is a familiar finding in neighbouring countries, with some marginal differences. As for schooling, female gross enrolment ratio is higher than males for primary, secondary, and tertiary education; however, the ratios drop from 95% in the basic stage to 50% for females and 40% for males in the tertiary stage.

- ✧ The third dimension is related to the heavy reliance on donor aid for budgetary support, infrastructure building and maintenance, and (among other things) the financing of small and medium sized enterprises. A recent study pointed out that funding for small and medium sized enterprises is small in proportion to the total amount of aid that originates from the PNA's budget through capital expenditure (Abdelkarim, 2010). The study mentions only two programs; the first was an initiative of the ministries of labor and social affairs called "Poor Families Empowerment Program". The second was funded by the Islamic Development Bank called "Economic Empowerment" with funding that is negligible compared to foreign aid.

Given the politically unstable environment to which Palestinian entrepreneurs are subject to, entrepreneurial activity will probably not be as high as in countries with similar income levels. If this turns out to be the case (i.e. external factors are responsible for low entrepreneurship rates), then what can a government with little policy tools do? The Palestine Economic Policy Research Institute (MAS) took the initiative to make Palestine a GEM participating country in order to provide the tools and data necessary to monitor and enhance entrepreneurship in Palestine. In conjunction with this initiative, an educational program of business and entrepreneurship was started by the PNA.

The data which will be utilized for this report was collected during the second quarter of 2009 from the Jenin governorate. This may limit the comprehensiveness of the results, given that the data does not include other regions particularly Gaza; it remains to be seen from the 2010 data if this was the case or not.

2. The GEM Conceptual Model

The Global Entrepreneurship Monitor (GEM) is the world's leading research consortium dedicated to researching the relationship between entrepreneurship and national economic development. Through studying the various aspects of entrepreneurship GEM research provides a wealth of data and analysis about the roles played by entrepreneurs in shaping how economies develop. Although there is considerable agreement on the significance of entrepreneurship for economic development, the contribution of entrepreneurship to an economy also varies according to economic maturity (Porter, Sachs and McArthur, 2002)¹⁰. For the past ten years, GEM reports showed that

necessity-driven self-employment activity tends to be higher in less developed factor-driven economies. Since such economies are unable to keep pace with the demand for high-productivity sectors jobs, people must create their own economic activity. As an economy develops, the level of necessity-driven entrepreneurial activity gradually declines as productive sectors grow and supply more employment opportunities. At the same time, opportunity-driven entrepreneurial activity tends to pick up with improvements in wealth and infrastructure, introducing qualitative changes in overall entrepreneurial activity. Further details on the role of entrepreneurship in different phases of economic development are provided in Box 2.1.

Box 2.1: The Role of Entrepreneurship in Different Phases of Economic Development

Entrepreneurship in Factor-Driven Economies

Economic development consists of changes in the quantity and character of economic value added (Lewis, 1954). These changes result in greater productivity and rising per-capita incomes, and they often coincide with labor migration across different economic sectors; for example from primary and extractive sectors to the manufacturing sector, and eventually, services (Gries & Naude, 2008). Countries with low levels of economic development typically have a large agricultural sector, which provides subsistence for the majority of population who mostly still live in the countryside. This situation changes as industrial activity starts to develop, often around the extraction of natural resources. As extractive industry develops, this triggers economic growth, prompting surplus labor from agriculture to migrate toward extractive and emergent scale-intensive sectors, which are often located in specific regions. The resulting oversupply of labor feeds subsistence entrepreneurship in regional agglomerations, as surplus workers seek to create self-employment opportunities in order to make a living.

Entrepreneurship in Efficiency-Driven Economies

As the industrial sector develops further, institutions start to emerge to support further industrialization and economies of scale in pursuit of higher returns. Typically, national economic policies in scale-intensive economies shape emerging economic and financial institutions to favour large national businesses. As increasing economic productivity contributes to financial capital formation, niches may open in industrial supply chains that benefit specific sectors. This, combined with the opening up of independent financial capital supply from the emerging banking sector, creates opportunities for the development of small-scale and medium-sized manufacturing sectors. Thus, in a scale-intensive economy, one would expect necessity-driven industrial activity to gradually fall and give way to an emerging small-scale manufacturing sector.

¹⁰ 'This classification of phases of economic development is based on the level of GDP per capita and the extent to which countries are factor-driven in terms of the share of exports of primary goods in total exports. Factor-driven economies are primarily extractive in nature, while efficiency-driven economies exhibit scale-intensity as a major driver of development. At the innovation-driven stage of development, economies are characterized by their production of new and unique goods and services that are created via sophisticated, and often pioneering, methods. As countries develop economically, they tend to shift from one phase to the next' (GEM 2009:5). Although GDP per capita is highly correlated with the human development index, there are many other facets to development not measured by this indicator.

Entrepreneurship in Innovation-Driven Economies

As an economy matures and wealth increases, the emphasis on industrial activity may gradually shift toward an expanding service sector that caters to the needs of an increasingly affluent population and supplies the services normally expected of a high-income society. The industrial sector then evolves and experiences improvements in diversity and sophistication. Such a development would typically be associated with increasing research and development along with growing knowledge intensity, as knowledge-generating institutions in the economy gain momentum. This opens the way for the development of innovative, opportunity-seeking entrepreneurial activities that are not afraid to challenge established business incumbents in the economy. Often, small entrepreneurial firms enjoy an innovation productivity advantage over larger incumbents, enabling them to operate as 'agents of creative destruction.' To the extent that the economic and financial institutions created during the scale-intensive phase of the economy are able to accommodate and support opportunity-seeking entrepreneurial activity, innovative entrepreneurial firms may emerge as significant drivers of economic growth and wealth creation.

Source: Global Entrepreneurship Monitor 2009, p. 9.

The following sections in this chapter will present the standardized GEM theoretical model, encompassed in the Entrepreneurial Framework Conditions (EFCs). These EFCs are considered to be the main determinants of a nation's entrepreneurial environment and affect the three main components of entrepreneurship: attitudes (perceptions), activities and aspirations. The research methodology, along with how GEM measures entrepreneurial activities, will be presented in the second section. The third section will provide a summary of the main findings of the GEM 2009 Report, which will help in creating a better understanding of the conditions in which Palestinian entrepreneurs are operating from a global perspective.

2.1 The GEM Theoretical Model

The GEM model focuses on three main objectives:

- ✧ To measure differences in the level of early-stage entrepreneurial activity among countries.
- ✧ To discover factors determining the national levels of entrepreneurial activity; and
- ✧ To identify policies that may enhance national levels of entrepreneurial activity.

GEM takes a comprehensive approach in considering the involvement of entrepreneurial activity within a country and identifying different types and phases of entrepreneurship. The GEM framework is based on the theoretical model illustrated in Figure 2.1 and the definitions for each of the nine EFCs are presented in Box 2.2. This reflects a multi-faceted view of the nature of entrepreneurship

and recognizes that a range of environmental conditions affect the three main components of entrepreneurship.

As mentioned previously, this report understands entrepreneurship within its multi-faceted nature and recognizes that a range of environmental conditions affect the attitudes, activity and aspirations of entrepreneurs.

The *Attitudes* component of the model involves attitudes of two different segments of the population: First, the general public and their perceptions of entrepreneurs and entrepreneurship. This is relevant because the general public provides the social network that supports entrepreneurs and a culture that is beneficial to entrepreneurship. The second includes perceptions of the entrepreneurs themselves; how they feel about starting a business, their level of confidence, their willingness to take risks¹¹; and their desire to make profits. The APS data sets include questions which capture these attitudes in order to link them to entrepreneurship. If a link does exist (whether positive or negative), policy recommendations can be made to ensure that framework conditions are entrepreneurship-friendly.

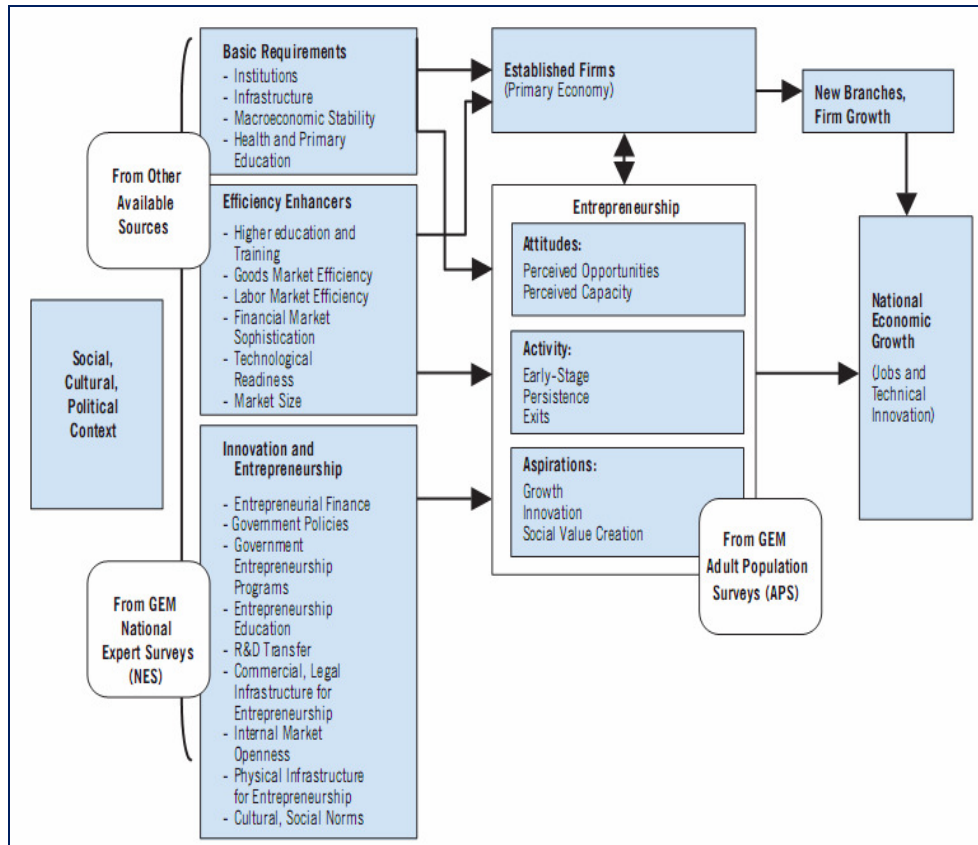
Secondly, *Entrepreneurial Activities* have various forms, including the extent to which people in a population create new business activities in both absolute and relative terms. The GEM model addresses these issues as a cycle that starts with a business idea and ends in either a successful or failed operation. The model examines the socio-economic

¹¹ This question is asked to the whole population.

characteristics (such as education, income level, labor force status, gender, age...) of the people involved in the various stages of business development. It also studies the economic sectors in which entrepreneurial

activities takes place; (i.e., is it geared for the domestic market or foreign markets? Is it in a low level of technology sector or a high technology-level sector?).

Figure 2.1: The GEM Conceptual Model



Source: Global Entrepreneurship Monitor 2009, p. 12.

Box 2.2: The GEM Entrepreneurial Framework Conditions

EFC1: Financial Support

The availability of financial resources, equity, and debt for new and growing firms, including grants and subsidies.

EFC2: Government Policies

The extent to which government policies are reflected in taxes and/or regulations and whether the application of either are either size-neutral or encourage new and growing firms. Subsequent empirical studies have shown that there are two distinct dimensions, or sub-divisions of this EFC category. The first covers the extent to which new and growing firms are prioritized in government policy. The second is regards the regulation of new and growing firms.

EFC3: Government Programs

The presence and quality of direct programs to assist new and growing firms at all levels of government (national, regional, municipal).

EFC4: Education and Training

The extent to which training in creating or managing small, new, or growing business is incorporated within the educational and training system at all levels. Subsequent empirical studies have shown that there are two distinct sub-dimensions to this EFC category: Primary and secondary school level entrepreneurship education and training, and post-school entrepreneurship education and training.

EFC5: Research and Development Transfer

The extent to which national research and development will lead to new commercial opportunities and whether or not these are available for new, small and growing firms.

EFC6: Commercial, Professional Infrastructure

The presence of commercial, accounting and other legal services and institutions that allow or promote the emergence of new, small, or growing businesses.

EFC7: Internal Market Openness

The extent to which commercial arrangements undergo constant change and redeployment as new and growing firms compete and replace existing suppliers, subcontractors, and consultants. Subsequent empirical studies have shown that there are two distinct sub-dimensions to this EFC category: Market Dynamics, that is the extent to which markets change dramatically from year to year, and Market Openness, or the extent to which new firms are free to enter existing markets.

EFC8: Access to Physical Infrastructure

Ease of access to available physical resources – communication, utilities, transportation, land or space – at a cost that is not prohibitive to new, small or growing firms.

EFC9: Cultural, Social Norms

The extent to which existing social and cultural norms encourage (or do not discourage) individual actions that may lead to new ways of conducting business or economic activities and may, in turn, lead to greater dispersion in personal wealth and income.

Source: Global Entrepreneurship Monitor 2009, p.33.

Thirdly, *Entrepreneurial Aspirations* are directly linked to growth. In effect, it is important to understand the personal and business goals of entrepreneurs. Do they expect to create many jobs in the future? Do they aspire to create new products? Given the situation of a country like Palestine, do they (or can they) aspire to extend their markets beyond their borders? Thus, GEM has created measures that capture such aspirations since the major features of a country's socio-economic environment are expected to have a significant impact on the entrepreneurial sector.

2.2 The Research Methodology

How does GEM measure entrepreneurial activities and what is the primary data collection tool? To answer this question GEM takes a broad view of entrepreneurship and focuses on the role played by individuals in the entrepreneurial process. Considering entrepreneurship as a process implies that the actions of entrepreneurs at the different stages of creating and sustaining a business are observed by GEM. Thus, GEM studies the behaviour of the people actually engaged in the process of starting and managing new firms.

In the words of GEM, 'the payment of any wages for more than three months to anybody, including the owners, is considered to be the 'birth event' of actual businesses. Individuals

who are actively committing resources to start a business that they expect to own themselves, but who have not reached this 'birth event', are labelled *nascent entrepreneurs*. Individuals who currently own and manage a new business that has paid salaries for more than three months but not more than 42 months are referred to as *new business (baby business) owners*. The cut-off point of 42 months has been made on a combination of theoretical and operational grounds¹². The prevalence rate of nascent entrepreneurs and new business owners put together may be viewed as an indicator of early-stage entrepreneurial activity in a country. It represents dynamic new firm activity – the extent of experimentation of new business models by a national population (GEM 2009:13).

On the other hand, established business owners that own and manage a business that has been in operation for more than 42 months have survived the risks of being new. High rates of established business ownership may

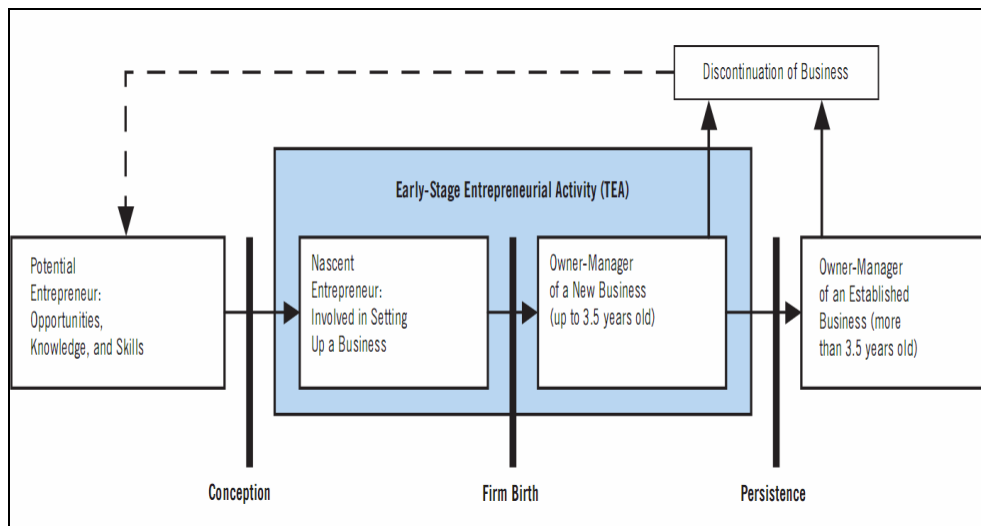
¹² Although most new businesses do not survive beyond three or four years, however, the choice of 42 months reflects also operational issues. According to Reynolds et al. (2005), 'The relevant interview question asked only the year when salary and wage payments were initiated and most surveys occurred in the summer months; so the alternatives for choosing a "new firm age" were 1.5 years, 2.5 years, 3.5 years, etc. The shortest time frame that would provide enough cases for stable prevalence rates with a total sample of 2,000 seemed to occur at 3.5 years. Conceptually, any time period under five years seemed satisfactory so this age was considered an appropriate trade-off between conceptual and operational considerations in the early years of the project. There has been no compelling reason to adjust this criteria and a desire for a stable time series has led to its continued use'.

indicate positive conditions for firm survival. However, this is not necessarily the case. If a country exhibits a high degree of established entrepreneurship combined with a low degree of early-stage entrepreneurial activity, this indicates a low level of dynamism in entrepreneurial activity. Finally, GEM identifies individuals who have discontinued a

business in the last 12 months since individuals may enter the entrepreneurial process again (GEM 2009:13).

Figure 2.2 summarizes GEM's entrepreneurial process and Table 2.1 elaborates on GEM's operational definitions for entrepreneurial attitudes, activities and aspirations.

Figure 2.2: The Entrepreneurial Process and GEM Operational Definitions



Source: Global Entrepreneurship Monitor 2009, p.14.

Table 2.1: Glossary of GEM Terminology and Main Indicators

Terms and Indicators	Definition
Entrepreneurial Attitudes	
Perceived Opportunities	Percentage of the 18-64 population who see good opportunities to start a firm in the area where they live.
Perceived Capabilities	Percentage of the 18-64 population who believe to have the required skills and knowledge to start a business.
Fear of Failure Rate	Percentage of the 18-64 population with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business.
Entrepreneurial Intention	Percentage of the 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years.
Entrepreneurship as Desirable Career Choice	Percentage of the 18-64 population who agree with the statement 'that in their country, most people consider starting a business as a desirable career choice.'
High Status Successful Entrepreneurship	Percentage of the 18-64 population who agree with the statement 'that in their country, successful entrepreneurs receive high status.'
Media Attention for Entrepreneurship	Percentage of the 18-64 population who agree with the statement 'that in their country, you will often see stories in the public media about successful new businesses.'
Entrepreneurial Activity	
Nascent Entrepreneurship Rate	Percentage of the 18-64 population who are currently a nascent entrepreneur, i.e. actively involved in setting up a business they will own or

Terms and Indicators	Definition
	co-own; this business has not paid salaries, wages, or any other payments to the owners for more than three months.
New Business Ownership Rate	Percentage of the 18-64 population who are currently a owner-manager of a new business, i.e. owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months.
Early-Stage Entrepreneurial Activity (TEA)	Percentage of the 18-64 population who are either a nascent entrepreneur or owner- manager of a new business (as defined above).
Established Business Ownership Rate	Percentage of the 18-64 population who are currently owner-manager of an established business, i.e. owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.
Business Discontinuation Rate	Percentage of the 18-64 population who have, in the past 12 months, discontinued a business, either by selling, shutting down, or otherwise discontinuing an owner/management relationship with the business. Note: This is NOT a measure of business failure rates.
Necessity-Driven Entrepreneurial Activity	Percentage of those involved in early-stage entrepreneurial activity (as defined above) who are involved in entrepreneurship because they had no other option for work.
Improvement-Driven Opportunity Entrepreneurial Activity	Percentage of those involved in early-stage entrepreneurial activity who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income.
Entrepreneurial Aspirations	
High-Growth Expectation Early- Stage Entrepreneurial Activity (TEA)	Percentage of the 18-64 population who are either nascent entrepreneurs or owner- manager of a new business (as defined above) <i>and</i> expect to employ at at At least 20 employees five years from now.
High-Growth Expectation Early- Stage Entrepreneurial Activity	Percentage of early-stage entrepreneurs (as defined above) who expect to employ at least 20 employees five years from now. Weak measure: expects at least <i>five</i> employees five years from now.
New Product-Market Oriented Early-Stage Entrepreneurial Activity	Percentage of early-stage entrepreneurs who indicate that their product or service is new to at least some customers <i>and</i> indicate that not many businesses offer the same product or service. Weak measure: product is new <i>or</i> not many businesses offer the same product or service.
International Orientation Entrepreneurial Activity with International Orientation	Percentage of early-stage entrepreneurs (as defined above) with more than 25% of the customers coming from other countries. Weak measure: <i>more than 1percent</i> of customers coming from other countries.

Source: Global Entrepreneurship Monitor 2009, p.61.

In relation to the data collection tool, the Adult Population Survey (APS) is the primary research tool of GEM. It is a comprehensive survey conducted at the country level with a nationally-representative sample of at least 2,000 adults, aged 18-64 years old. To ensure consistency and cross-country comparability, each country conducts the same survey of its adult population at the same time of the year using methodologies approved by GEM. The individual country surveys are then harmonized into one master dataset. The APS mainly collects information

on the percentage of the population that is: 1) engaged in activities to start a business (nascent entrepreneurs); 2) involved as owners in a ‘baby’ business that is less than 42 months old; 3) own an established business that is more than 42 months old; 4) has had a business in the past but discontinued it; and 5) has invested in someone else’s business (informal investors). The rates for (1) and (2) are combined to produce the Total Entrepreneurial Activity (TEA) rate, which is used to rank countries on their level of early-stage entrepreneurial activity, and combined

with (3) to produce the overall level of entrepreneurial activity. The APS gathers information on the perceptions of the opportunities available for entrepreneurial activity, the skills and competencies to pursue these opportunities, the available support, and the intentions to start and so on. Additionally, the gathered demographic data on gender, age, education, labor force status, income, and locality enables the analysis to determine the socio-economic profile of nascent entrepreneurs, established entrepreneurs, and non-entrepreneurs and the influence of attitudes, aspirations and demographics to entrepreneurial undertakings. Dimensions of the enterprises being started by nascent and new entrepreneurs, or managed by existing entrepreneurs, are also examined (sector, existing and expected employment, use of technologies, innovativeness, location of customer base, growth expectations, etc).

2.3 A Global Perspective: Main Findings of the GEM 2009 Global Report

The 11th report in the GEM global reports focuses on the impact of the recent global economic recession on entrepreneurship and the role that entrepreneurship plays in reversing the decline in economic output and demand. The report also provides updates on entrepreneurial attitudes and perceptions, activities, and aspirations. Therefore, based on more than 180,000 interviews conducted between May and October in 54 countries in 2009, GEM data demonstrates that the global economic downturn reduced the number of people who thought there were good opportunities to start a business in many parts of the world. Not surprisingly, entrepreneurial activity declined in most GEM countries in 2009; however, about a third of the countries studies pointed towards increased activity. A significant minority of would-be entrepreneurs in wealthier countries saw the recession as increasing opportunities for their businesses. The proportion of necessity-driven entrepreneurs increased and attitudes towards entrepreneurship as a career choice improved in half of the wealthier countries in GEM. The key finding of the GEM 2009 global report can be summarized as follows (GEM 2009, P.5-7):

Entrepreneurial Activity, Aspirations, Attitudes and Perceptions

In general, although TEA rates decline with increasing economic development, variations in countries' socio-economic conditions create discrepancies in early-stage entrepreneurial activities depending on the phase of economic development. This is reflected in the results concerning businesses discontinuation, for example. It was found that operational and financial problems are only partial reasons for the exit of businesses; other reasons, such as retirement, other job or business opportunities, or opportunities to sell the business can play a role in discontinuing a business. In relation to entrepreneurial aspirations, it was found that around 70% of new start-ups expected some job creation, but only 14% expected to create 20 or more new jobs. Moreover, business start-ups in countries with high levels of employment protection exhibited lower rates of success in relation to significant job creation. This can be explained either because entrepreneurs faced with fierce employment protection perceive this as a barrier to expanding their businesses, or because individuals with high entrepreneurship aspirations may see employment as a more attractive option than starting their own business. Perceptions toward entrepreneurship are found to vary across nations in regards to the desirability of entrepreneurship as a career. However, these variations in attributes help policy-makers differentiate needs and encourage entrepreneurship on numerous levels.

Institutional Quality Related to Entrepreneurship

Generally, it was found that experts in developed countries tend to be more sensitive towards entrepreneurial framework conditions. This reflects the notion that entrepreneurial conditions are relatively more important in more advanced phases of economic development. However, the conditions of education and training were found to be among the worst-rated.

Impact of the 2009 Economic Downturn

As a consequence for the 2008-2009 global recession, more than half of entrepreneurs stated that it was harder to start a new business in 2009 than in 2008. The majority of entrepreneurs in factor-driven and efficiency-

driven economies saw fewer opportunities for their businesses, although these economies were assumed to be less affected by the global downturn. However, around a quarter of the entrepreneurs in innovation-driven economies saw more opportunities for their businesses, and almost half show a decrease in the number of people that are trying to start new businesses, with an increase in necessity driven start-up entrepreneurs.

Informal Investment Declines in Major Economies

The informal investment rate varies considerably across countries. It was found that informal investments in 2009 decreased in G7 countries; but among GEM countries overall, decreased activity matched increased activity. That is, since increases and decreases in investments are measured independently, the net result was a balance between the two.

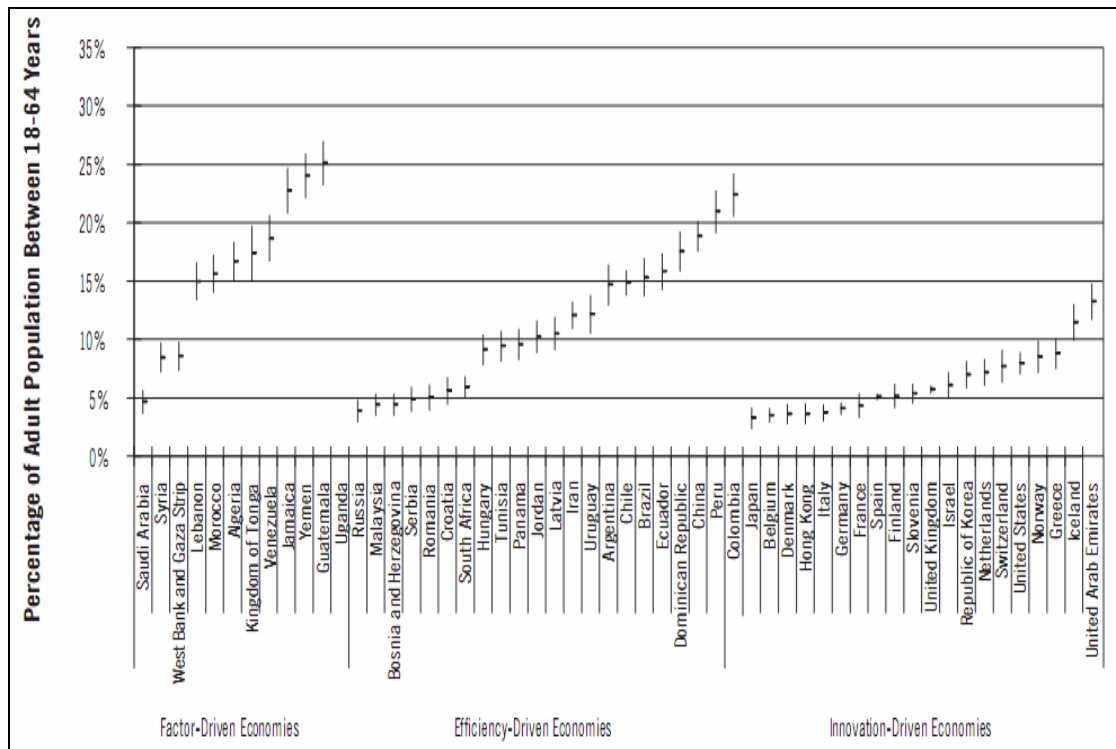
Decline in Venture Capital Activity in United States and Europe, Rise in China

Overall, only 15,000 entrepreneurial businesses received venture capital funding in the GEM countries, compared with tens of millions backed by informal investment. A sharp decline in venture capital activity in the United States occurred while venture capital in China was growing quickly.

Social Entrepreneurship

According to GEM, social entrepreneurship is defined as individuals engaged in entrepreneurial activities with a social goal. The data reveals that, on average 1.8% of the adult population was involved in early-stage entrepreneurial activity, with a range from 0.1% to 4.3%. Among those who started ventures were mostly men, young adults and better educated individuals. Figure 2.3 presents early-stage entrepreneurial activity rates for the GEM 2009 countries. The countries are grouped by phase of economic development and ranked in ascending order.

Figure 2.3: Early-Stage Entrepreneurial activity (TEA) for 54 nations in 2009, by Phase of Economic development, Showing 95 Percent Confidence intervals



Source: Global Entrepreneurship Monitor 2009, p.22

3. Palestinian Entrepreneurship in Regional and Global Contexts

3.1 Activity Rates

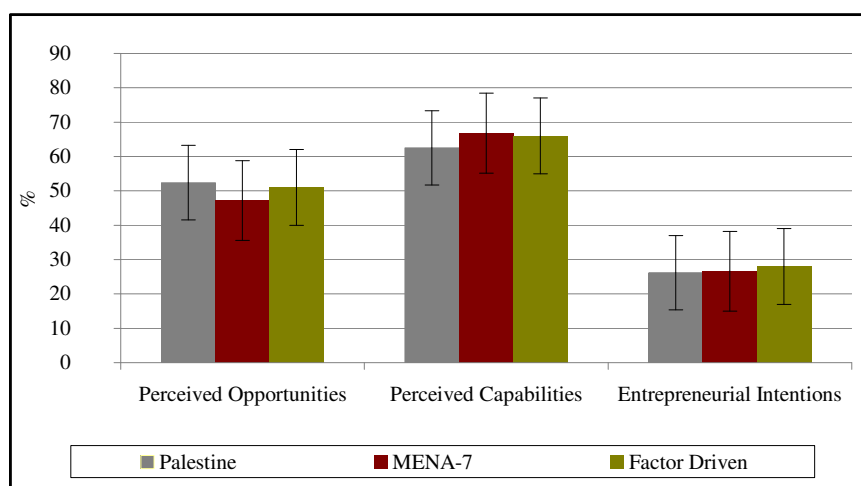
The GEM 2009 Global Report postulates that there are necessary and sufficient conditions for entrepreneurship to occur. There exist three necessary requirements: the presence of opportunities for entrepreneurship, the possession of entrepreneurial capabilities, and the perception that there is a good match between the previous two. Sufficient provisions, on the other hand, relate to socio-economic factors. Whenever these ingredients are present, an assessment and decision has to be made by the entrepreneur (ie. if the benefits outweigh the costs, one would expect a positive outcome).

Palestine is classified as a factor-driven economy, which implies that low-technology and resource-based products constitute the bulk of Palestinian exports. According to Daoud and El-Jaafari¹³, resource-based and low-technology products comprise nearly 43% and 12% of total Palestinian exports, respectively (the relevant world averages stood at 12% and 10% in 2002). This fact signifies that while ample room for entrepreneurial activities may exist, the risks

are high due to the heavy reliance on the Israeli economy for both exports and imports, while trade with the rest of the world remains significantly restricted. Although another section of this report discusses perceptions in greater detail, Figure 3.1 below provides a quick review of the basic perceptions questions for Palestine, MENA-7, and factor-driven economies.

Although statistical differences between Palestine, MENA-7, and factor-driven economies are not significant, perceived opportunities in Palestine are higher than in the other groups, while perceptions of capabilities and entrepreneurial intentions are lower. Despite the fact that Palestinians see opportunities to start a business, they do not seem to think that they have the required skills in the same proportions as people in other countries with similar classifications in either the geographic or developmental stage. A plausible result could be lower intentions to initiate a business, as shown in the figure below.

Figure 3.1: Perceptions and Intentions



Source: APS data for Palestine and MENA-7, GEM 2009 Global Report for factor driven

¹³ This paper was prepared for UNCTAD between 2007 and 2009; it is not published at the time of the writing of this report.

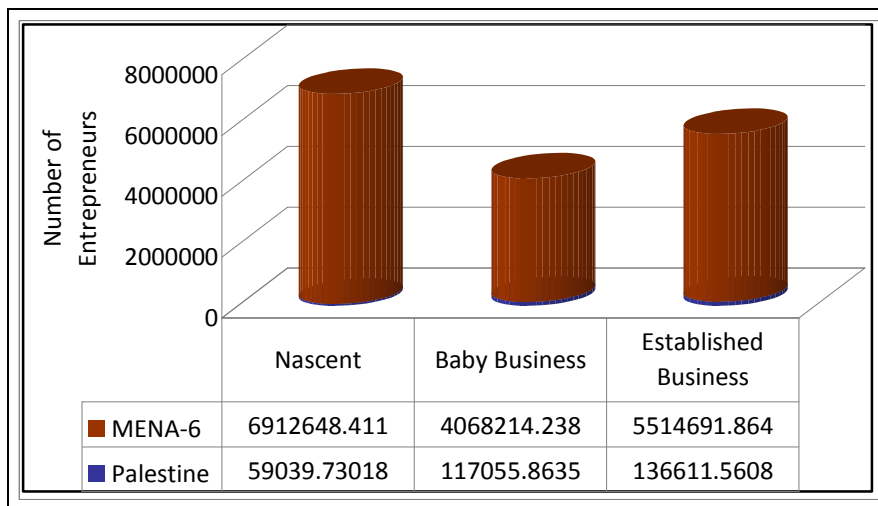
The APS refers to nascent-entrepreneurship rate as the proportion of the adult population (18-64 years) involved in setting up a fully- or partially-owned business, without having paid wages for more than three months. The baby-business rate differs in that the business has paid salaries for more than three months but less than three and a half years. The combined rate is referred to as total early-stage entrepreneurial activity rate (TEA), which gives the proportion of the adult population involved in business creation. The GEM model places a strong emphasis on this indicator because this figure considers the demographic and individual as well as the institutional dimensions of the process. It is expected that the higher the TEA rate, the higher the prospects for development and growth in the future. It is found that TEA rates are typically related to GDP per capita in a u-shaped manner. The GEM's research team's explanation of this phenomenon refers to economies of scale, macroeconomic and political stability, access to resources, and abundance of opportunities. If a business has paid salaries for more than three and a half years, then it is classified as an established business. The figures for entrepreneurial

activity rates are presented in Figure 3.2 below.

Reynolds (2009) reports that there exist 388 million TEA active entrepreneurs in the 76 GEM countries; the figure for MENA-7 stands at 11.157 million, 176 thousands of whom are Palestinians. Figure 3.2 below illustrates the total numbers of entrepreneurs and their distribution across the three stages of entrepreneurship.

The evidence presented in Figure 3.2 demonstrates that in Palestine the number of entrepreneurs in the established-business stage is larger than in both the nascent- and the baby-business stages. This is merely due to the fact (shown in figure 3.3 below) that the established-business rate is higher than both the nascent- and the baby-business rates. During the three stages of the entrepreneurial process, an inflow of firms - business creation - takes place; and overtime, an outflow - business discontinuation - also occurs. If in any given year the outflow exceeds the inflow, the stock of firms declines, leading to a reduction in the established business rate.

Figure 3.2: Number of Entrepreneurs by Stage of Entrepreneurship



Source: APS data for MENA-7 countries

The data in Figure 3.3 shows that the TEA rate in Palestine is very low compared to that in the MENA-7 countries, mostly owing to the low nascent activity rates¹⁴. The nascent rate in

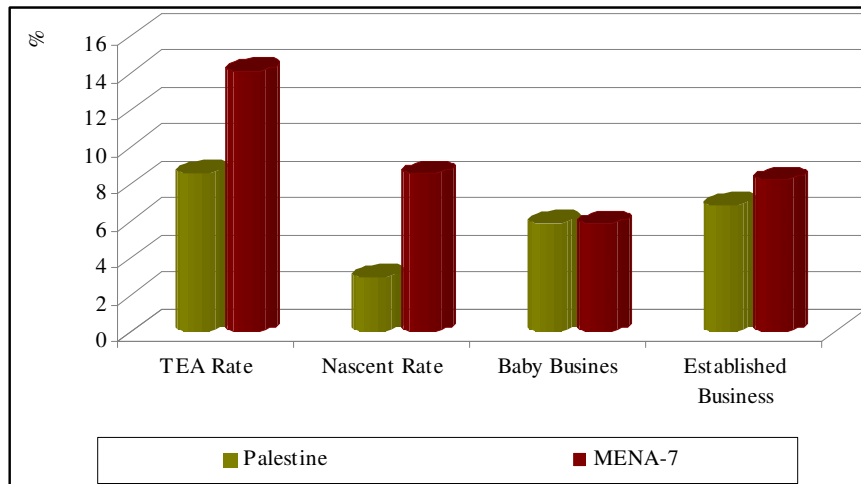
MENA-7 is nearly three-fold the one in Palestine. Since nascent entrepreneurs will eventually transform into become baby-business entrepreneurs, as long as the previous periods' rates for Palestine and MENA-7 are similarly, we can expect that many nascent entrepreneurs will not move to the next stage of baby business (as these are similar for the

¹⁴ Among the 54 countries reported in GEM's 2009 Global Report, Palestine ranks 28th, which is just above the median. The median rate, belonging to Syria, is 8.5% and is very close to Palestine's 8.6%.

two regions). Also, a higher established-business rate implies that, over time, inflows have slightly exceeded outflows. In order to explain the nascent rate difference with

MENA-7, we will compare some indicators for Palestine and the MENA average in Table 3.1 below.

Figure 3.3: Entrepreneurial Activity Rates for Palestine and MENA-7



Source: APS data for Palestine and MENA-7

Table 3.1: The Indicators Expected to be Responsible for the Low Nascent Rate in Palestine

		Palestine	MENA-7
Education (%)	NONE	12	18
	Some Secondary	38	32
	Secondary	33	32
	Post Secondary	17	17
	Graduate	.6	1.3
Training (%)	In School	4	7
	Post School	14	11
Locality (%)	Urban	31	58
	Rural	69	42
Starting a Business is a Good Career Choice (% Yes)		87	83
New Business gets Lots of Media Coverage (% Yes)		53	65
Start-up Capital Requirement (\$)		42,340	55,772
Fear Of Failure (% Yes)		39	31

Source: APS 2009

One would expect education level to affect entrepreneurial activity positively, so that a higher proportion of the adult population in the post secondary and graduate categories would help increase the entrepreneurial activity rate. In Palestine, there are fewer people in graduate education level per one hundred individuals

and more in some secondary than in MENA-7. However, this may be compensated for by the “None” education category, in which the rate is higher for MENA-7. This trend tends to neutralize the education factor as a reason for the difference in nascent-rate activity. Differences are more striking in the category

of rural/urban distribution, which in Palestine is skewed in favour of rural localities - almost 70% of the entrepreneurs live in rural areas

compared to 42% for MENA-7, as rural areas are , at least in theory, not as conducive to entrepreneurial activity as urban areas.

Box 3.1: The Determinants of Nascent Entrepreneurship

A logistic regression was applied to nascent entrepreneurship, using the covariates in Table 3.1 in addition to some other covariates. The results are shown below.

	Impact on probability of nascent entrepreneurship	significance (10% or lower)
2nd 33%	+	No
3rd 33%	+	No
some sec. educ.	-	No
sec. educ.	-	No
post sec. educ.	-	No
grad. educ.	+	No
in sch. Training	-	No
after sch. training	+	No
fear of failure	+	No
good career choice	-	No
good media coverage	+	No
gender (fem=1)	-	No
age	+	No
start-up capital		No

The most important finding is that the model poorly predicts the dependent variable, none of the covariates is significant, and some variables have the opposite to the expected sign. For example, secondary education is thought to affect entrepreneurship positively, which is not the case here. School training and fear of failure also have signs opposite to the expected ones.

Moreover, new businesses in Palestine do not get as much media coverage as in the rest of MENA-7 countries, and the fear of failure factor in Palestine is much higher than elsewhere. The combined effect of these factors pushes the Palestinian rate below the MENA-7 one. It is expected that, holding other variables constant, higher start-up capital requirements bring about lower entrepreneurial activity. Although start-up capital requirements in Palestine are not as high as in MENA-7, nascent entrepreneurship in the former is much lower than in the latter.

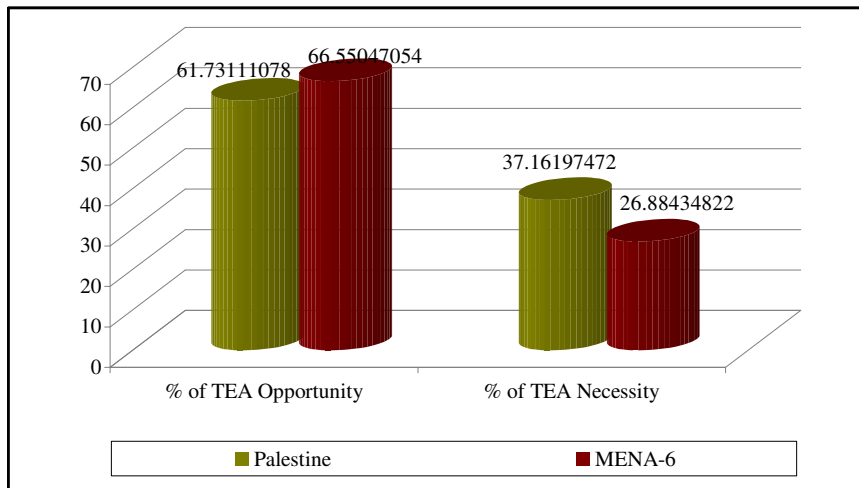
3.2 Motives

Individuals choose whether or not to join the labor force based on the value of their time at home or on the labor market. In terms of gender, time at home may have different value, which affects this decision. Once on the labor market, individuals have to choose

among various employment sectors and occupations. Less developed countries (LDC's) lack an abundance of job opportunities, so in many cases individuals do not have many, if any, choices to make, which causes them to seek informal employment or self-employment. The GEM model tries to disentangle entrepreneurs from this category's point of view; necessity-driven entrepreneurship is often more prevalent in factor and efficiency-driven economies, where job opportunities are scarce; while opportunity-driven entrepreneurship is more prevalent in innovation-driven economies.

As Palestine fits within the factor-driven economies, and given its low developmental level, one would expect much higher than average necessity-driven entrepreneurship. Figure 3.4 above provides the relevant figures.

Figure 3.4: Early-Stage Entrepreneurial Activity Motives

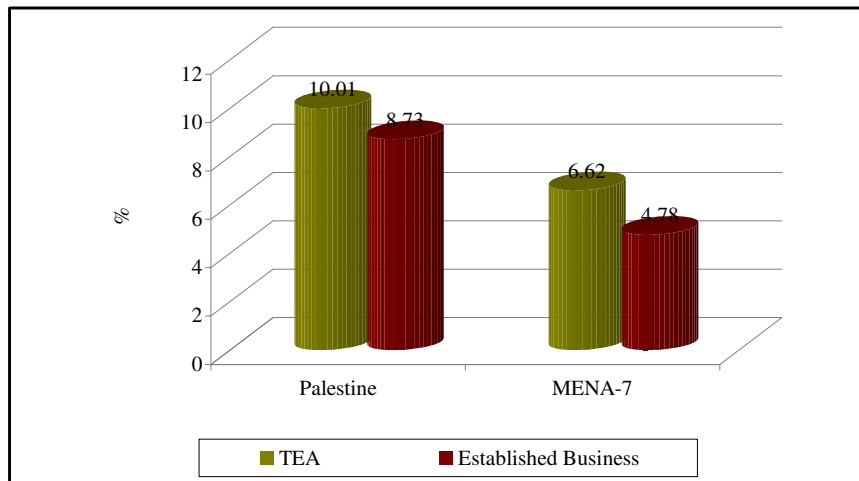


Source: APS 2009

As the figure above shows, the gap between MENA-6 countries and Palestine is wider in the necessity motive (around 10 points), indicating the dire economic conditions experienced by Palestinians. This finding, however, is line with the trends in the literature regarding factor-driven versus efficiency- and innovation-driven economies.

The ratio of business discontinuation depends on numerous factors: profitability, financing, and personal reasons, among others. Lack of profitability could be market-specific (cut-throat competition, threshold demand, supply bottlenecks, etc) or firm-specific (inefficiency and cost factors). The discontinuation rates in Palestine and MENA-7 are presented in Figure 3.5 below.

Figure 3.5: Business Discontinuation Rates



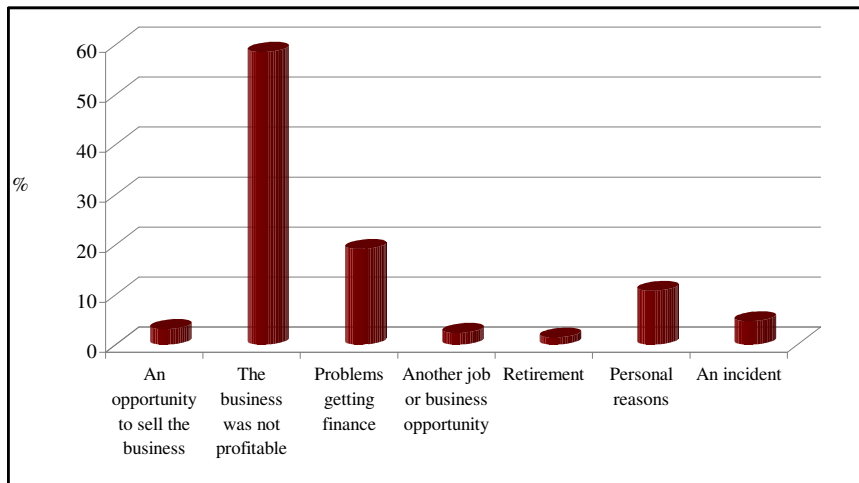
Source: APS 2009 MENA countries data

For both stages of entrepreneurship, discontinuation rates in Palestine are higher than the MENA-7 averages, especially in early-stage entrepreneurship. The gap between TEA and established business is lower for Palestine (1.3 points) than the MENA-7 average (1.8 points). Further investigation shows that while Palestine's discontinuation

rate for established businesses is higher than the ones of all individual MENA-7 countries, some MENA-7 states actually exhibit higher rates for TEA.

Figure 3.6 below shows the distribution of respondents for reasons of exit.

Figure 3.6: Reasons for Business Discontinuation



Although profitability constitutes the number one reason for discontinuation, financing problems and personal reasons together account for 30% of discontinuations, which is not unique to Palestine, since many GEM countries exhibit similar patterns. Using activity rates and discontinuation rates for the population of age 18-64 years, one can quantify the effects of discontinuation.

The figures in the table below indicate that a total of nearly 30,000 entrepreneurs discontinued their business right before 2009. In addition, for the three stages of entrepreneurship, a total of 16,500 businesses were discontinued, leading to a loss of 36,000

employee jobs. The combined relevant figure for employees and entrepreneurs stands at roughly 65,000 positions. Given a labor force of nearly one million in 2009, the number of lost jobs due to business discontinuation equals 6.5% of the labor force, a sizable contribution to the already high level of unemployment (24.5% in 2009). As a result, the efforts should concentrate on explaining this discontinuation: why businesses are not profitable; how the provision of financing can help enterprises survive; and whether personal problems can be alleviated in order to help businesses continue operating.

Table 3.2: Estimates of Discontinuation Figures

	population 18-64	Entrepreneurial activity rates		
		Nascent	Baby business	Established business
	1,993,004	0.030	0.059	0.069
Number of entrepreneurs		59,040	117,056	136,612
Average entrepreneur team size		2.26	1.73	1.57
Number of firms		26,156	67,756	87,014
Average number of employees (excluding owners)**		2.37	1.65	2.50
Total No employees (excluding owners)		61,972	111,666	217,534
Discontinuation rate		0.128	0.082	0.087
No of discontinued entrepreneurs		7,551	9,599	11,926
No of Discontinued businesses		3,345	5,556	7,596
Total number of lost jobs (employees only)		7,926	9,157	18,991

** The figure for EB comes from the average number of employees for the entire sample, which is 2.43. Instead, the number 2.5 was used because established businesses usually have more employees. The average number of employees for EB was not used because the number of respondents to this question from established businesses is less than 10, resulting in an unusually high average number of employees.

Paltrade

Paltrade is a Palestinian non-profit organization which was established to promote Palestinian development through the following:

- Advocating a competitive and business enabling environment
- Capacity building is a key element in trade promotion
- Fostering international business practices
- Provision of information to promote trade

Paltrade has over 260 members who benefit from its programs. There are four departments which cover trade development, promotion, policy and information.

For more information:

<http://www.paltrade.org/en>

3.4 Export Orientation

International orientation can result in export-led growth as in Taiwan, Korea, and China. The level of openness, typically measured by the ratio of the sum of exports and imports to GDP, is positively correlated with growth, particularly in developed economies. One of the benefits of trade stems from the opportunity to export products to international

markets if domestic demand does not suffice to absorb the available output. However, high transaction costs decrease Palestinian producers' competitiveness abroad and thus limit their access to international markets. Table 3.3 below provides information on the proportion of firms' foreign customers.

Table 3.3: Proportion of Firms' Foreign Customers

Proportion	TEA		EB	
	Palestine	MENA-7	Palestine	MENA-7
75%-100%	0.47	3.24	2.00	2.99
25%-75%	2.20	9.38	3.57	8.50
1%-25%	6.53	32.29	11.77	37.37
None	90.80	55.08	81.28	46.90

GEM developed this measure to account for entrepreneurial aspirations. The GEM 2009 Global Report shows that larger-size countries have smaller international orientation than smaller ones. The figures in the table above reveal three major trends. First, established businesses have a little more international orientation than TEA enterprises. Second, the bulk of Palestinian entrepreneurs' customers are domestic - 91% reported that they do not have any foreign customers for TEA and 81% for EB. Third, the MENA-7 countries have a higher average proportion of foreign customers than Palestine.

Obviously, Palestine has to bridge a wide gap with regards to exports. Although Palestinians

are constrained by the Paris Protocol and the quasi customs union with Israel, more efforts are needed in order to promote the export of Palestinian products. The brochure below shows an example of the promotion campaign of one Palestinian institution.

3.5 Technology

With respect to the technology sector development stage, 99.5% of the entrepreneurs TEA and 98.5% of the EB ones chose a no/low technology sector, rather than the medium/high technology sector option. Given that Palestine is a factor-driven economy, this figure comes as no surprise. These values are not statistically significant from those of the MENA-7 countries.

3.6 Growth Expectations

The theory of the firm postulates that in the long run firms choose their optimal size based on economies of scale, i.e., if expansion tends to lower the average cost, then firms have an incentive to increase their scale of operations, which requires increasing inputs, including labor. Thus, the APS asks entrepreneurs about their expectations of future job creation, assuming that TEA entrepreneurs answer this question according to expectations about future business activity. Entrepreneurs are also directly asked about their business outlook. If they answer in the same manner to both questions, their behaviour is consistent.

Furthermore, the GEM 2009 report proposes that the “strictness of employment” conditions are negatively related to growth expectations for two reasons. First, the tighter the employment conditions are, the harder it is for entrepreneurs to hire and fire employees, so they refrain from expanding. Second, as employment protection gets stronger, workers feel more secure as an employee rather than an entrepreneur, which decreases their desire to start their own business. Table 3.4 below presents the growth aspirations. A common feature of the MENA-7 countries is that their expected job growths are low.

Table 3.4: Expected Job Growth

	TEA		EB	
	Palestine	MENA-7	Palestine	MENA-7
Expects >19 in 5 years	0.3*	1.10	0.14*	0.60
Zero jobs	40.14	15.00	46.36	22.30
1-5 jobs	42.55	43.62	42.61	51.50
6-19 jobs	13.05	32.80	8.74*	23.14
20+ jobs	4.27*	10.71	2.29	13.61
10 or more jobs and 50% or more growth	6.19	16.09	2.18*	11.14

*The number of observed cases is less than 10.

Table 3.5: Growth Expectations and Business outlook

Expected No. of Jobs (x)	Business Outlook (y)			
	Nascent			f(x)
	Lower	same	higher	
0-5	0.39	0.13	0.18	0.70
6--10	0.03	0.05	0.05	0.13
>10	0.06	0.05	0.05	0.17
f(y)	0.48	0.23	0.29	1.00
Baby Business				
0-5	0.45	0.26	0.18	0.89
6--10	0.03	0.03	0.02	0.07
>10	0.01	0.02	0.00	0.03
f(y)	0.50	0.30	0.20	1.00
Established Business				
0-5	0.52	0.27	0.17	0.96
6--10	0.02	0.00	0.00	0.02
>10	0.00	0.02	0.00	0.02
f(y)	0.54	0.28	0.17	1.00

The APS finds that Palestine's figures are lower than MENA-7 numbers in favourable situations, such as high expected job growth, and worse in unfavourable situations - low job growth. This which presents a pessimistic look at growth aspirations. The trend signals that either Palestinian entrepreneur expect slower business activity in the future, or that there will not be any cost-reduction benefits from expansion, especially now that employment strictness is low in Palestine.

To get a clearer picture of business-condition and job-growth expectations, a cross tabulation is done for nascent, baby, and established businesses. For exposition purposes, the study calls growth expectations (x) and business outlook¹⁵ (y). The data in Table 3.5 above shows proportions of the total number of respondents who answered both questions in the form of probabilities. Although much of the data used to calculate these probabilities comes from less than 10 cases, the analysis refrains from performing

hypotheses testing due to the low counts in many of the cells. Nevertheless, it is possible to get a general idea of how consistent the data is. The upper-most-left cell for each of the entrepreneurship stages indicates low business expectations and low growth expectations. Thus, it is expected that this would be the highest probability. Finally, off-diagonal elements should be low because one should not expect a business to hire new workers when doing poorly.

According to these numbers, 70% of nascent entrepreneurs expect between 0 and 5 job positions with almost half of them expecting lower business activity compared to a year ago. The story is similar for baby business and established business with nearly half of them expecting lower business outlook and low job growth. Therefore, the data is somewhat consistent, reflecting low growth expectations across the various categories of business outlook.

¹⁵ This figure measures whether entrepreneurs' growth expectations are better, worse, or about the same compared to the previous year.

4. Profiling Entrepreneurship in Palestine

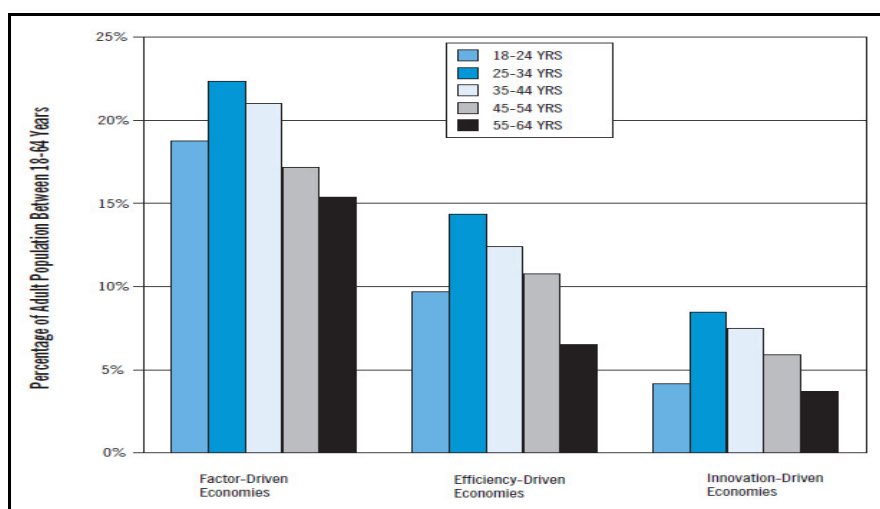
The APS conducted in the West Bank and Gaza provides valuable information toward profiling Palestinian entrepreneurs. TEA rates are calculated for different categories of age, gender, education, income, marital status, and locality. The following sections highlight the main results revealed by the APS for the effect of these demographic variables on entrepreneurship.

4.1 Age and Entrepreneurial Activity

The Global Entrepreneurship Monitor 2009 reveals that for the 54 countries studied, the age category 25-34 years has the highest early-stage entrepreneurial activity prevalence rates,

regardless of the country or phase of economic development. This means that no matter if the country is classified as factor-driven, efficiency-driven, or innovation-driven, the age group 25-34 years still has the highest TEA rate. A gradual decline in the early-stage entrepreneurial activity prevalence rates after the age of 35 years reflects a lower desire to start a business as age increases. However, although the trend is structurally uniform across the various phases, it is different with respect to the level of prevalence rates across the levels of economic development. Figure 4.1 shows these trends at the global level.

Figure 4.1: Early-Stage Entrepreneurial Activity for Separate Age Groups, 2009

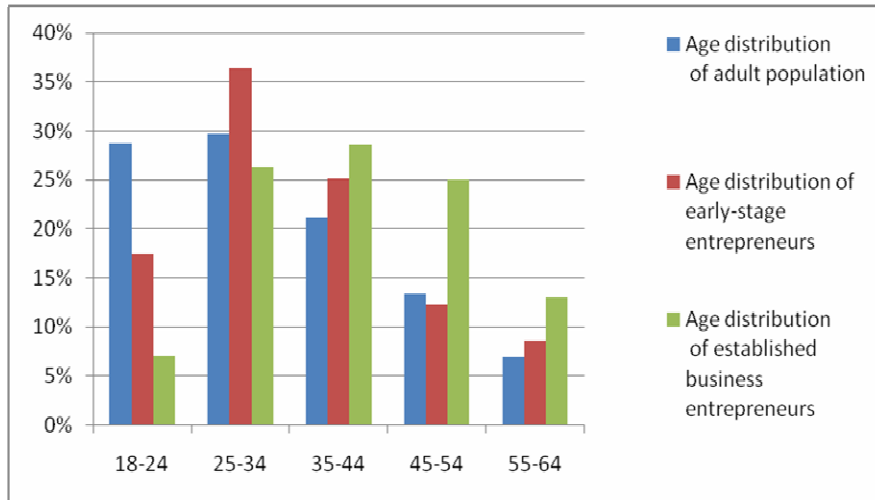


Source: GEM Adult Population Survey (APS), Global Entrepreneurship Monitor, 2009:25

Palestine is not an exception to the rule. Figure 4.2 reflects this global consistency and shows that 36.4% of TEA entrepreneurs are in the 25-34 years age group, followed by 25.2% in the 35-44 years group, and 17.5% in the 18-24 years group. Hence, around 54% of the early-stage Palestinian entrepreneurs are under 35 years of age, and around 80% are under 44 years of age. Entrepreneurship is under-represented in the 18-24 years age category, which accounts for about 17.5% of early-stage Palestinian entrepreneurs but for more than 28% of the adult population. On the other hand, entrepreneurs are over-represented in the 25-34 years age category, which accounts for more than 36% of early-stage Palestinian

entrepreneurs and for only around 29% of the adult population. Furthermore, with respect to the age distribution of established business entrepreneurs, the expected results are evident: the lowest number of entrepreneurs are in the 18-24 years age group, the highest is in the 55-64 years age group, while the rest of the entrepreneurs are distributed nearly equally among the remaining three age groups. This indicates that the younger groups have a higher level of involvement in early-stage entrepreneurial activity, particularly as nascent entrepreneurs, while older groups have a higher level of involvement as established-business owners.

Figure 4.2: Age Distribution of Early-Stage Entrepreneurs and Established Business (EB) Entrepreneurs Compared to all Respondents – Palestine 2009



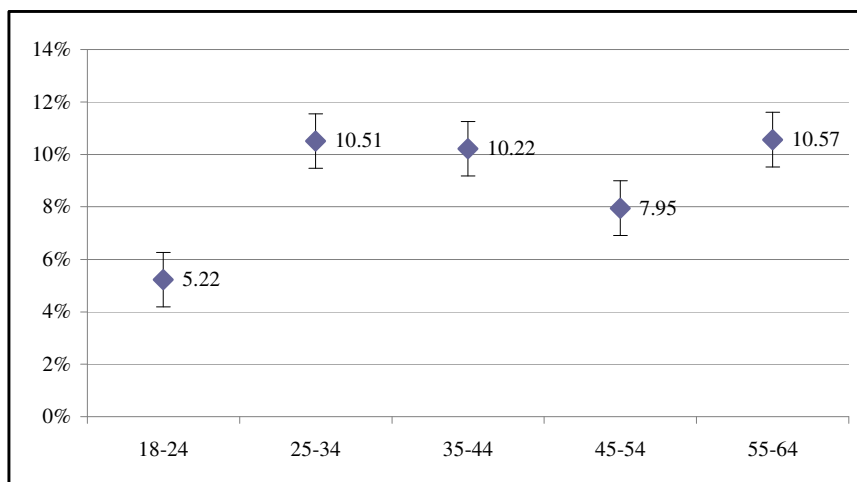
Source: Adult Population Survey, Palestine, 2009.

Additionally, TEA rate by age group remains almost identical within the age ranges of 25-34, 35-44, and 55-64 years at an average of 10.4%. However, the lowest TEA rate is within the youngest age group (18-24 years) - around 5.2%. Figure 4.3 illustrates the TEA rate for each of the age groups.

Moreover, it is vital to look at the distribution of male and female entrepreneurs by age group so that policy-makers can create strategies to bridge the gender gap. TEA rates are higher in the 25-34 years age group for both males and females, and since TEA rates are higher for

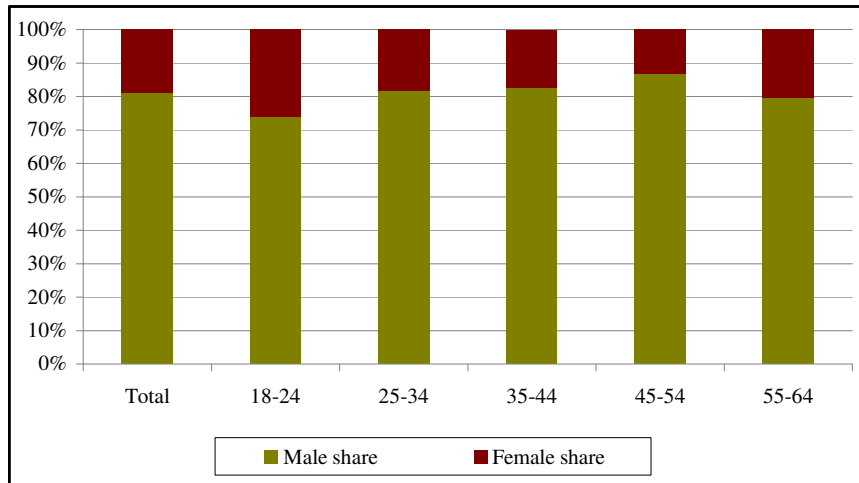
males in all age groups, the females' share in the entrepreneurial activities is lower. This is reflected in Figure 4.4, which shows that the females' share of early-stage entrepreneurship is highest in the 18-24 years age group by constituting around 26% of this group, which makes the males' share only 2.8 times higher than the females' one. However, the largest gender gap occurs in the 45-54 years age group, where males are six times more likely to engage in early-stage entrepreneurial activity than females. In a nutshell, only 19% of the entrepreneurially active persons are females.

Figure 4.3: TEA Rate by age group, Palestine 2009



Source: Adult Population Survey, Palestine, 2009.

Figure 4.4: Male-Female Share of Early-Stage Entrepreneurs by Age Group – Palestine 2009



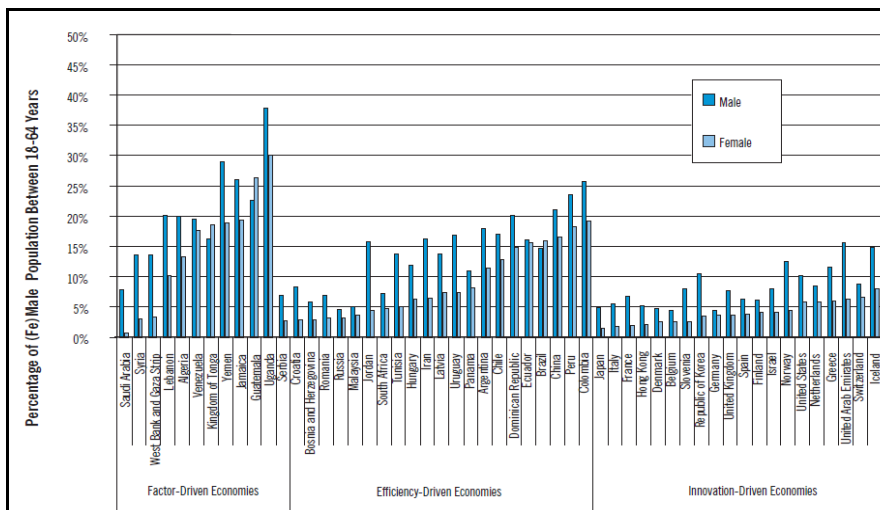
Source: Adult Population Survey, Palestine, 2009.

Finally, the preceding results demonstrate a relatively low rate of early-stage entrepreneurial activity among 18-24 year-olds (Figure 4.3) compared to other GEM-MENA countries, which may encourage Palestinian policy-makers to promote entrepreneurship among the youth in order to bolster a generation of future entrepreneurs. This encouragement may occur through policies that nurture entrepreneurship skills throughout the education system, schemes which encourage banks to finance the business projects of young people, and new legislation that offers incentives for young entrepreneurs and tackles some of the obstacles they presently face.

4.2 Gender and Entrepreneurial Activity

According to the Global Entrepreneurship Monitor 2009, significant variations and involvement gaps between males and females in the entrepreneurial activities exist across countries, which reflect differences in culture and customs regarding female participation in economic activities. Within this global context, Palestinian female TEA rates remain below the average, while the gender gap is wide and significant. Figure 4.5 provides the early-stage entrepreneurial activity rates by gender for the 54 GEM countries, which shows the low proportion of female participation in Palestine.

Figure 4.5: Early-Stage Entrepreneurial Activity Rates by Gender, 2009



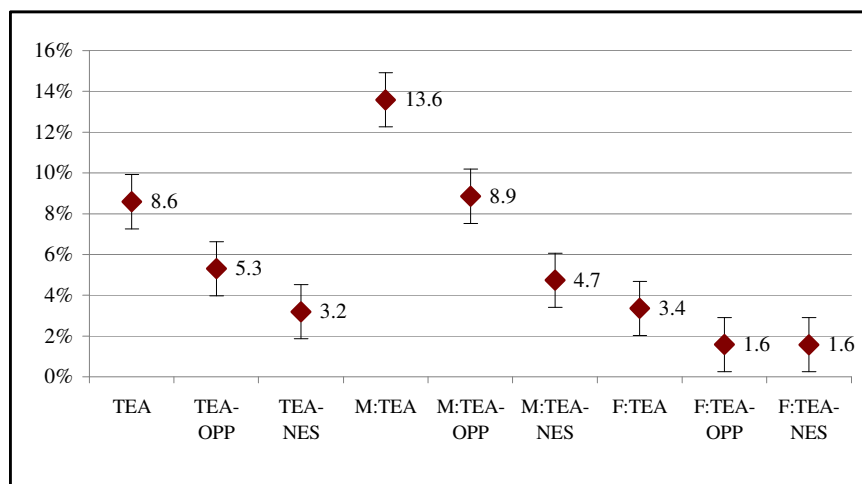
Source: GEM Adult Population Survey (APS), Global Entrepreneurship Monitor, 2009:25

Furthermore, in the Palestinian case, the TEA rate for males is almost four times higher than for females (13.6% compared to 3.4%) - a significant gender gap reflecting the generally low participation of females in the labor force. In absolute terms, males make up around 81% of early-stage entrepreneurs, while females comprise the remaining 19%. It should be noted that Palestine has the lowest female labor force participation rate (16%) of any country listed in the World Development Indicators (World Bank 2010), which is likely to impact females' level of participation in entrepreneurial activity. Figure 4.6 reflects these facts and also shows that female involvement in early-stage entrepreneurial activity is almost equally driven by necessity

and opportunity reasons, whereas males are mainly motivated by new opportunities rather than out of necessity.

Finally, the significant gender gap in Palestinian entrepreneurial activity calls for urgent attention. Palestinian policy-makers should promote entrepreneurship among females and address the low level of confidence that they have in their abilities to start a business and their higher fear of failure through awareness, training, and mentoring programs. Tackling this major issue is likely to have positive spill-over effects on the level of female entrepreneurial activity and contribute to the development process as a whole.

Figure 4.6: Opportunity and Necessity TEA Rates - Total, Male, Female - Palestine 2009



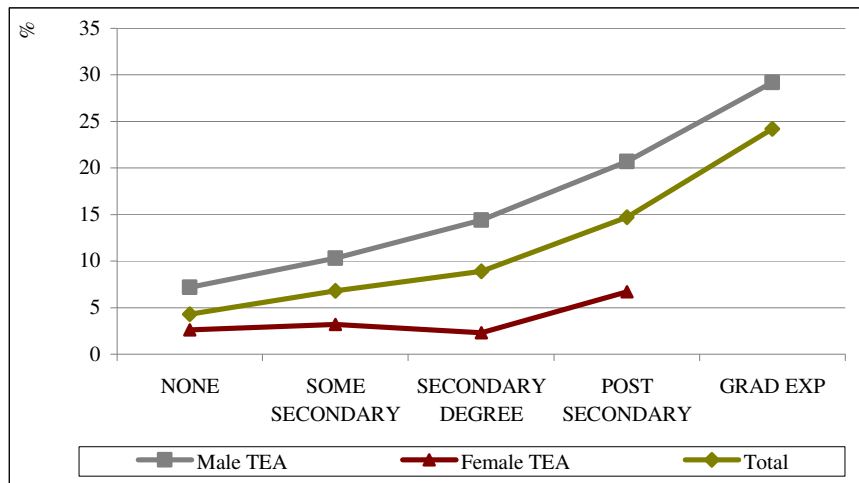
Source: Adult Population Survey, Palestine, 2009.

4.3 Education and Entrepreneurial Activity

Palestinian TEA rates vary significantly with entrepreneurs' education level. Overall, the TEA rate is lowest among entrepreneurs who have not completed elementary education (None) and highest among those with post-secondary education (4.3% and 14.7% respectively). This trend is encouraging for Palestine since about half of the adult population has completed secondary or higher education and makes Palestine which one of the most educated populations in the MENA

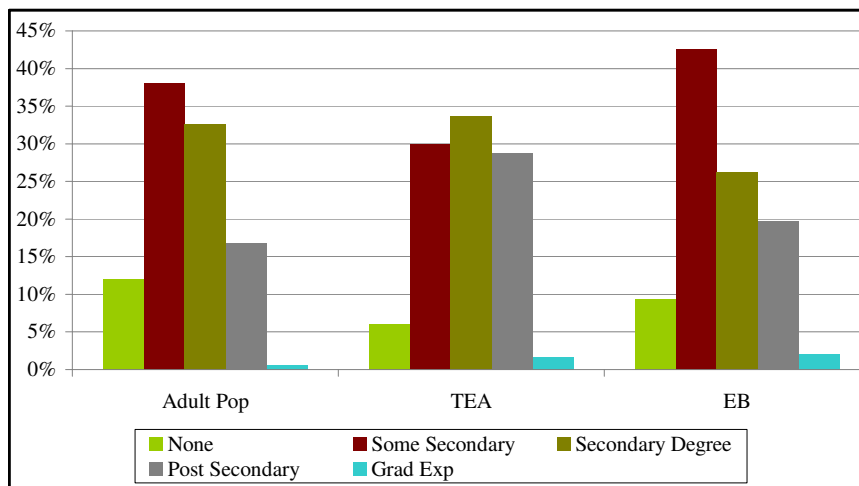
region. These figures, along with the male/female TEA rate distribution according to education level, are depicted in Figure 4.7. It can be noticed that, regardless of the gender, TEA rates increase with education. Nonetheless, TEA rates by gender are higher for males, and the gap increases with education. It is noteworthy that the number of female entrepreneurs barely exceeds 10% in some secondary and post-secondary groups.

Figure 4.7: TEA Rates by Education and Gender, Palestine 2009



Source: Adult Population Survey, Palestine, 2009.

Figure 4.8: Distribution of Adult Population and Early-Stage Entrepreneurs by Level of Education – Palestine, 2009



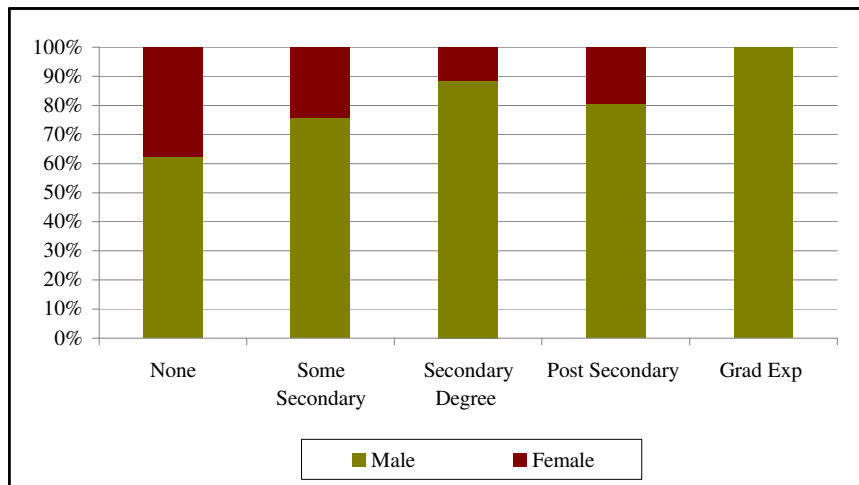
Source: Adult Population Survey, Palestine, 2009.

In terms of absolute values, Figure 4.8 shows that, at the TEA level, almost 92% of the entrepreneurs' level of education ranges among 'some secondary', 'secondary' and 'post-secondary' education with almost an even distribution among the three. However, at the EB level, although around 90% of the entrepreneurs are distributed among the three previously mentioned education levels, 43% hold 'some secondary', 26% 'secondary', and 20% 'post-secondary' education. The pattern from the previous two figures shows the vital role of having a certain level of education, preferably beyond 'post-secondary', in order

to foster the entrepreneurial growth in Palestine.

Figure 4.9 provides a snapshot of the share of males and females in entrepreneurial activities based on the level of education. It reveals that the female share of early-stage entrepreneurship is highest in the group with the lowest level of education (almost 38%), followed by those with 'some secondary' education (about 24%), while female representation in the secondary-degree education level is low (11%). The graduate-experience category might be ignored due to the small number of respondents in it.

Figure 4.9: Male-Female Share of Early-Stage Entrepreneurs by Education – Palestine 2009

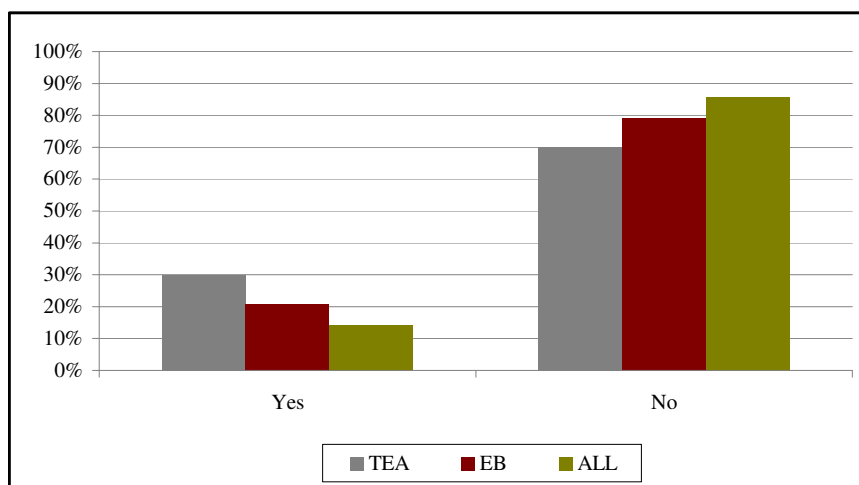


Source: Adult Population Survey, Palestine, 2009.

Finally, the respondents were asked if they had participated in training regarding starting a business at primary or secondary school, or even after they completed their education. This training, as another form of education, is believed to be of vital importance for the successful implementation of entrepreneurial projects and starting a business. The responses from entrepreneurs reveals that only 11% of TEA entrepreneurs and 3.3% of those at the EB level have received training on how to start a business at primary or secondary school, while only 30% and 21% of TEA and EB entrepreneurs have received training after school. Finally, the APS shows that only 4.1%

of the adult population has participated in such training at primary or secondary school, whereas 14% has received training after completing school education. Furthermore, the most prevalent sources of informal training for early-stage entrepreneurs are: colleges or universities (7%), current or past employers (6.7%), business associations (4.2%), government agencies (3.2%), and self-teaching by reading books, observing other people in businesses, or working in someone else's business (12.4%). Figure 4.10 and Figure 4.11 reflect these figures and perceptions, and also provide a comparison with the adult population.

Figure 4.10: Training on starting a business at primary or secondary school

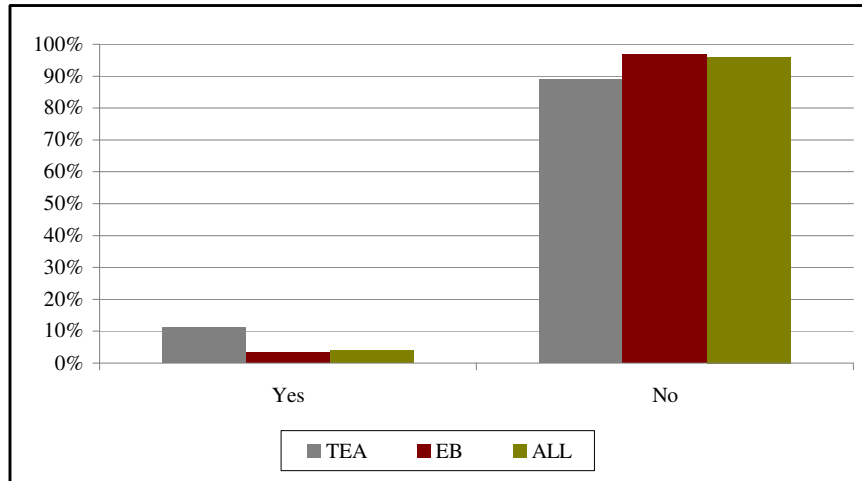


Source: Adult Population Survey, Palestine, 2009.

The data in the figures below show that the majority of the adult population does not receive training, whether in school or after.

This is an important finding as training can be a crucial factor in encouraging entrepreneurship and reducing fear of failure.

Figure 4.11: Training on starting a business after education in school



Source: Adult Population Survey, Palestine, 2009.

The Ministry of Education started an entrepreneurship education program in cooperation with the International Labour

Organization (ILO), information about which can be found below.

Box 4.1: Entrepreneurship Education- Palestinian Ministry of Education and Higher Education

In 2009 The Palestinian Ministry of Education and Higher Education (MoEHE), in cooperation with the **International Labour Organization (ILO)**, launched the Entrepreneurship Education project through implementing the entrepreneurial programme (Know about Business–KAB). This project was implemented at a pilot programme in 23 public and private educational institutions, particularly at vocational and technical training institutions and other vocational training centres that belong to the Ministry of Labour. Currently, an evaluation of the first phase is planned to be conducted.

About The Program

‘Know about Business-KAB’ is a program introduced by the ILO as a general curriculum that includes training targeting teachers and instructors to develop methods of interactive training. In these training sessions the teacher works as a facilitator of the learning process to ensure a higher degree of trainee participation through case studies, surveys, discussions, games, and individual and group exercises. All of these methods aim to create a more joyful, exciting and enriching learning experience.

The following are the objectives and targeted groups of the program:

General Objectives

1. Contribute towards the creation of an enterprise culture in a country or society, by promoting awareness among young people of the opportunities and challenges of entrepreneurship and self-employment, and of their role in shaping their future and that of their country's economic and social development.
2. Develop the planning, organizational, and operational skills among young entrepreneurs.

Specific Objectives

1. Develop positive attitudes towards entrepreneurship and self-employment among young people to increase their freedom and control over their lives and future careers.

2. Create awareness of entrepreneurship and self-employment as a career option for young people in secondary and vocational education, In addition to emphasizing the importance of planning as a first step.
3. Provide knowledge and skills needed by youth to contribute to their local communities as entrepreneurs or employees.
4. Facilitating the school-work transition as a result of a better understanding of functions and operations of enterprises.

Target Group and Beneficiaries

The KAB package is directed towards teachers and instructors in public and private vocational and technical training institutions and general secondary education. It can also be used for higher technical education and for professionals involved in enterprise promotion. The beneficiaries of KAB training are students in all levels of education (vocational and technical training, secondary and higher education and non-formal education).

The Impact and Contribution of KAB in Enhancing Entrepreneurship in Palestine

The first year or two of the program will constitute a pilot implementation period, in which an evaluation of the impact of the KAB package on awareness and entrepreneurship skills among participants is made. This period will include: introductory workshops, selection of participating educational institutions, teachers and instructor training, adaptation of program curricula, pilot implementation, monitoring instructors, evaluation of program impact, decision making, and recruitment system building.

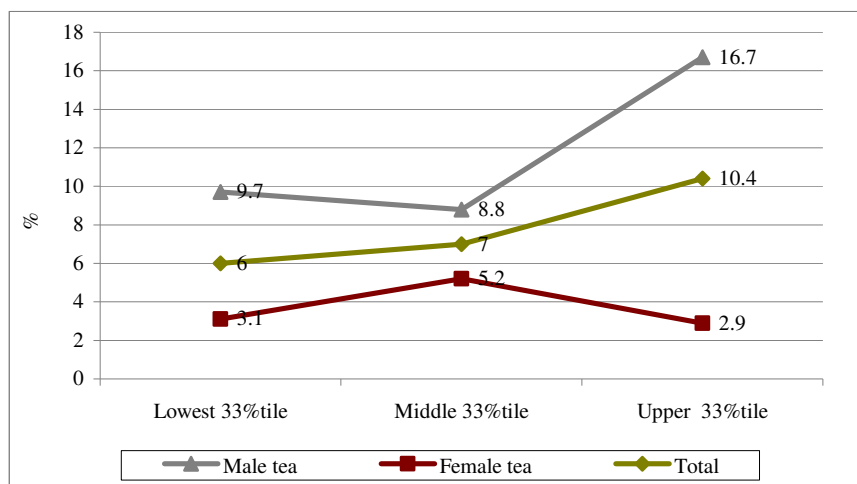
For more information please visit <http://kab.itcilo.org/en/what-is-kab/objective>

4.4 Income and Entrepreneurial Activity

Early-stage entrepreneurial activity prevalence rates and established business ownership rates also vary by income groups (upper, middle, and lower-third), but generally TEA rates increase together with the level of income for males, while for females the TEA rate

decreases for the upper 33% income group from 5.2% to 2.9%. Once again, the domination of males seems influential enough to make male TEA and TEA by income move almost in parallel. Figure 4.12 clarifies these trends regarding TEA by income and gender.

Figure 4.12: TEA Rate by Income and Gender, Palestine 2009

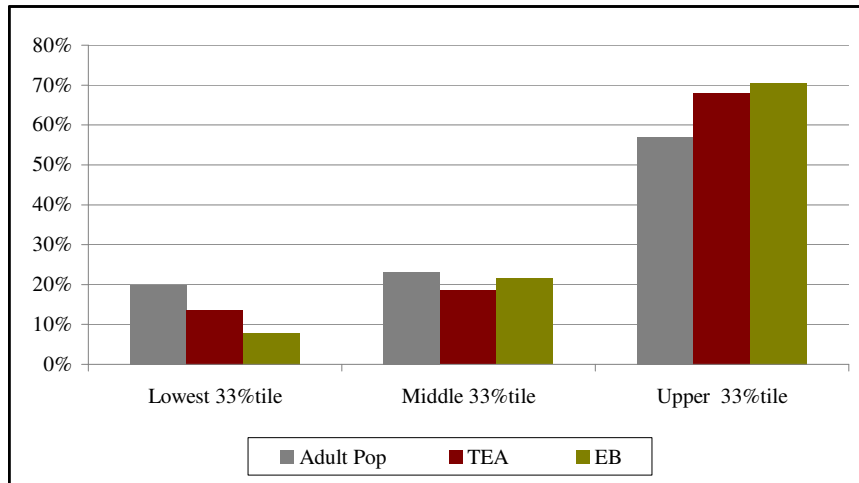


Source: Adult Population Survey, Palestine, 2009.

In terms of absolute values at the TEA and EB levels, Figure 4.13 shows that Palestinian entrepreneurs are more likely than the overall adult population to be in the upper 33rd percentile category. Also, entrepreneurs are under-represented in the lowest 33rd percentile

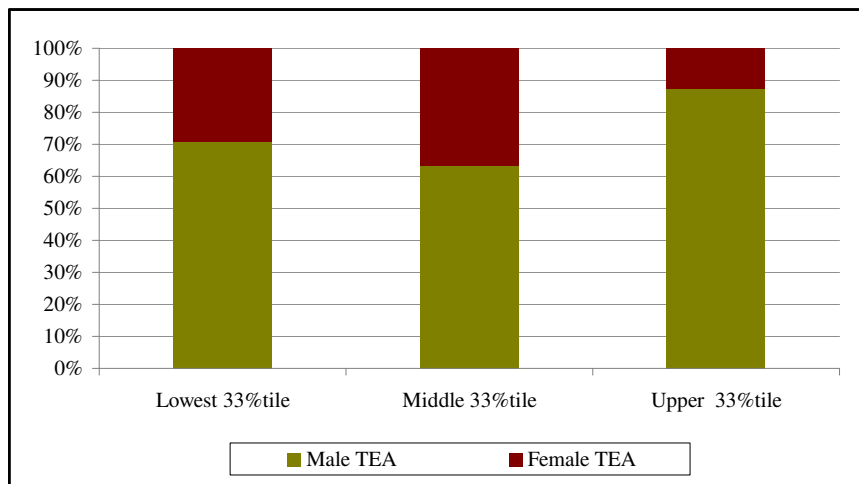
income at both levels. This means that two-thirds are in the upper-third income group, almost two-thirds have a secondary degree or higher education, and over 60% are between the ages of 25 and 44 years (and over half under the age of 35 years).

Figure 4.13: Income Distribution of Early-Stage Entrepreneurs and EB Compared to all Respondents



Source: Adult Population Survey, Palestine, 2009.

Figure 4.14: Male-Female Share of Early-Stage Entrepreneurs by Income Group - Palestine, 2009



Source: Adult Population Survey, Palestine, 2009.

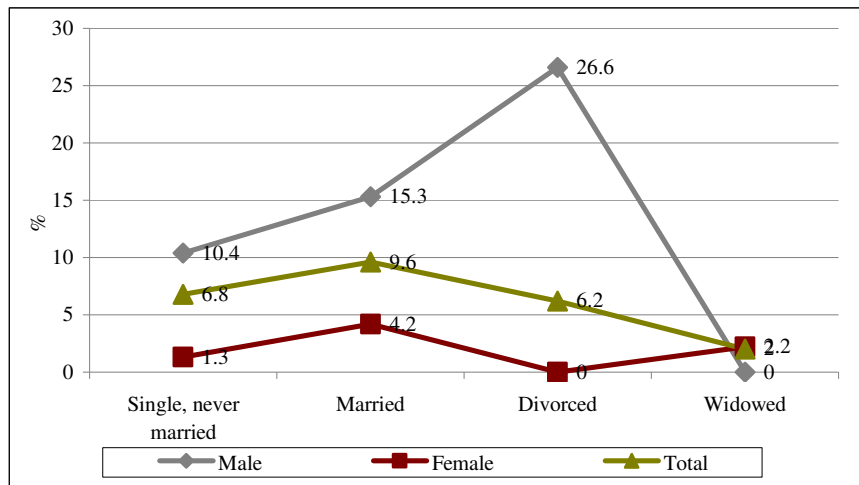
Moreover, in terms of male/female share, females' share of early-stage entrepreneurs is highest in the middle 33rd percentile income group, making up around 37%, followed by the lowest 33rd percentile group, making up around 29%. The lowest share is in the upper income level (only 12.5%). Figure 4.14 demonstrates these figures and shares.

4.5 Marital Status and Entrepreneurial Activity

There are four categories for the marital status of entrepreneurs in the survey; single, never married, married, divorced, and widowed. The figure below shows no widowed male

entrepreneurs and only 2% widowed female entrepreneurs. Once again, the male early-stage entrepreneurial activity is higher than female one. Gender differences are also evident in the divorced category - 0% for women and over 25% for men. For women, the highest TEA rate occurs in the married category, while for men it is divorced; however, the very low cell count casts doubt on this result. The fact that all divorced women are non-entrepreneurs points to the lack of support and resources necessary to start a business. But married people have higher probability to be involved as they tend to possess the income, support and other requirements.

Figure 4.15: TEA Rates by Marital Status

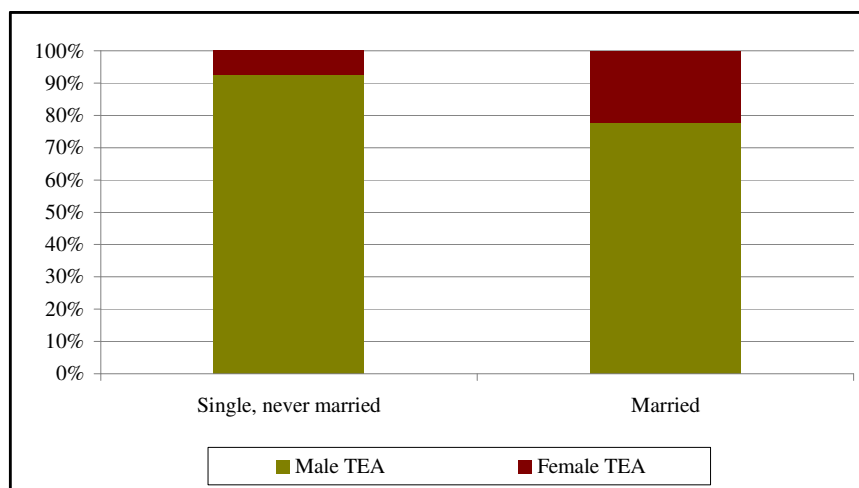


Source: Adult Population Survey, Palestine, 2009.

Furthermore, the females' share of early-stage entrepreneurs is highest within the married ones (22.2%) and stays at only 7.4% within the single entrepreneurs, as Figure 4.16-a indicates. On the other hand, Figure 4.16-b provides a comparison with the adult population which shows some degree of harmonization between the adult population and the distribution of the entrepreneurs

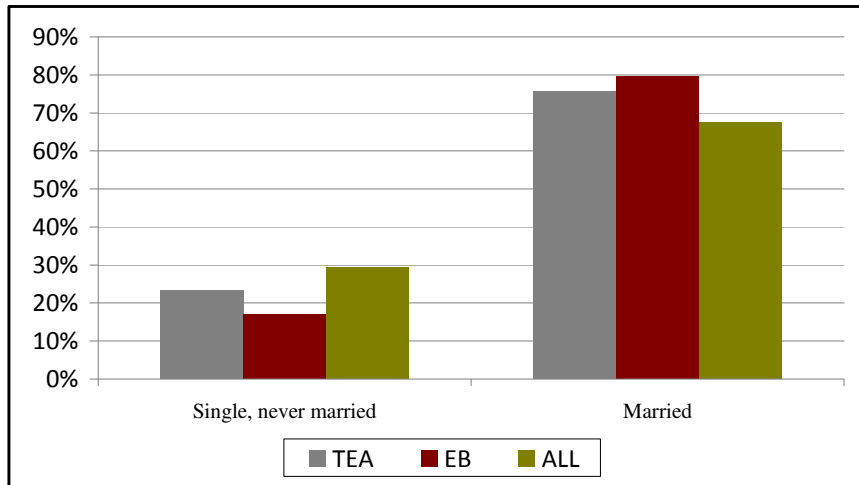
between the two categories (single and married). In other words, there is less variation in under or over-representation of entrepreneurs although at the TEA level entrepreneurs appear somewhat over-represented in the married category and under-represented in the single category, while at the EB level, the trend is the opposite.

4.16-a: Male-Female Share of Early-Stage Entrepreneurs by Marital Status –Palestine, 2009



Source: Adult Population Survey, Palestine, 2009.

Figure 4.16-b: Marital Status Distribution of Early-Stage Entrepreneurs and EB Compared to all Respondents



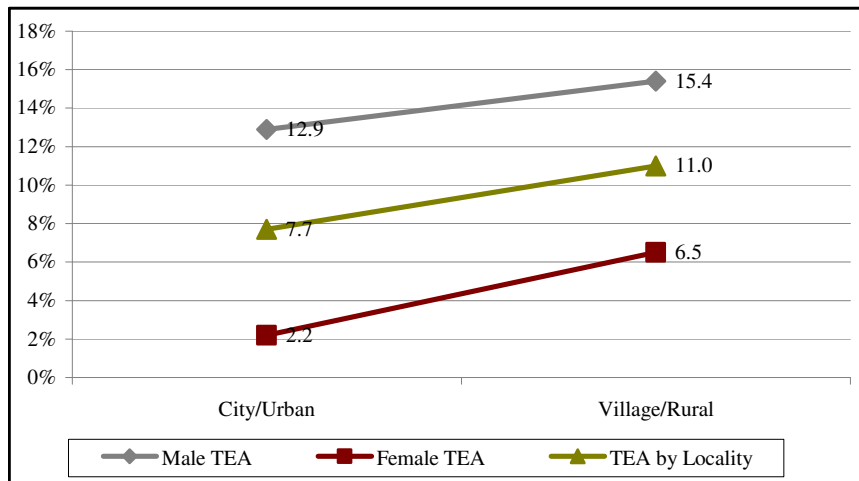
Source: Adult Population Survey, Palestine, 2009.

4.6 Locality and Entrepreneurial Activity

Analysis of the relationship between TEA rates and the locality demonstrates that the TEA rate among adults in rural areas is higher than in urban areas (11% compared to 7.7%). However, looked at from a gender

perspective, rates among females are lower than those among males in both rural and urban settings; nevertheless, for both genders, rural rates are higher than urban rates¹⁶, which is consistent with the necessity-motive story.

Figure 4.17: TEA Rates by Locality



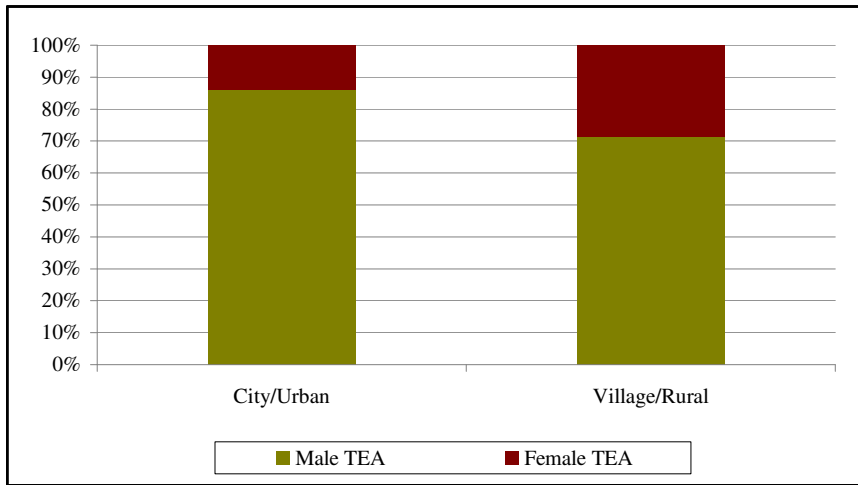
Source: Adult Population Survey, Palestine, 2009.

As an example, the females' share of early-stage entrepreneurs stands at 28.8% in rural areas only at 13.8% within urban areas, as Figure 4.18 indicates. Conversely, Figure 4.19 provides some harmonization between the adult population and the distribution of the entrepreneurs between

the two localities (urban and rural), although there appears to be a slight over-representation in the urban areas in comparison with the rural population, which seems to be underrepresented.

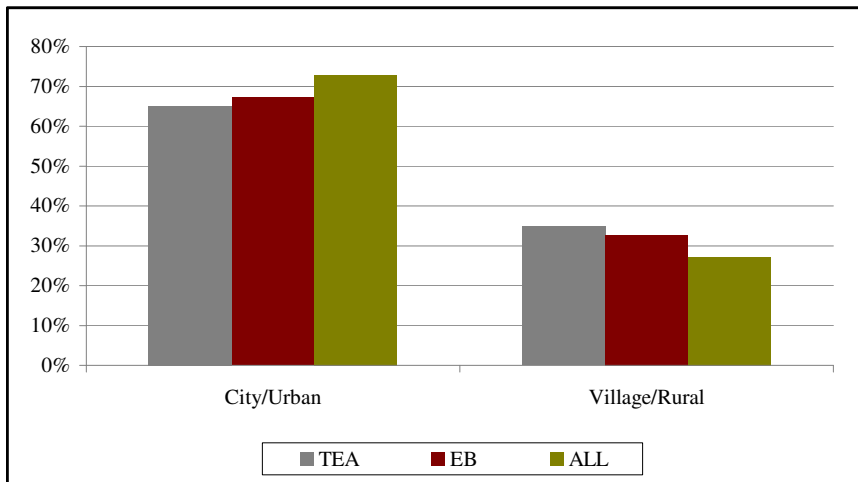
¹⁶ This may be due to the sampling which was drawn from Toubas/Jenin area only. It remains to be seen if 2010 data reflects the same trend. The 2010 data is more representative of the Palestinian population.

Figure 4.18: Male-Female Share of Early-Stage Entrepreneurs by Locality –Palestine, 2009



Source: Adult Population Survey, Palestine, 2009.

Figure 4.19: Locality Distribution of Early-Stage Entrepreneurs and EB Compared to all Respondents



5. Labor-Market Conditions and Entrepreneurial Activity

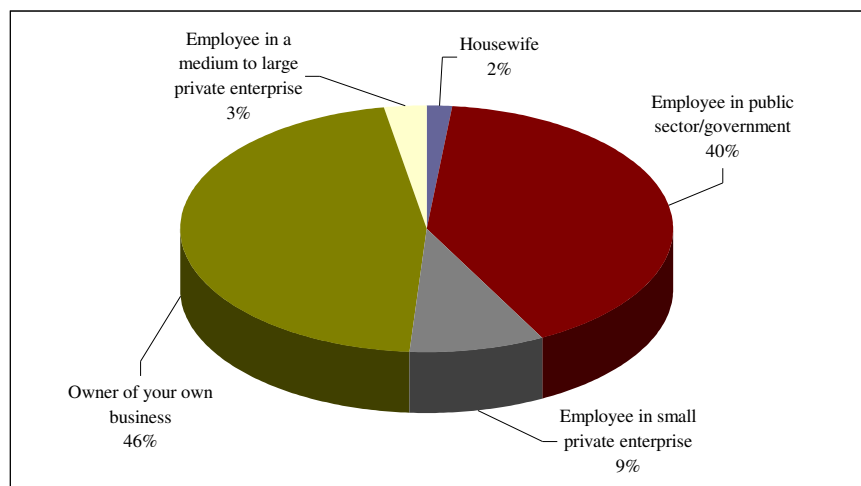
There is little doubt about the relationship between entrepreneurship and growth and development in regards to the mechanisms of job creation, enhanced productivity, and innovation. There is also substantial evidence (Evans and Jovanovic (1989) and Ilmakunnas and Topi (1999)) that liquidity and finance are important determinants of entrepreneurship. Other essential factors consist of country-specific and cultural aspects, willingness to provide effort, preference for independence, profit motive, and unemployment. All these factors play important roles in shaping the entrepreneurial process. Existing firms in less competitive structures may put in place barriers to entry or limit competitors' firm size.

Kanniainen and Leppamaki (2005) provide another approach to explaining entrepreneurship which looks at entrepreneurship as an occupational-choice model in the labor market. Labor-market institutions play a vital role in the interaction between the labor market and business start-ups. Individuals may prefer to be employed if

the labor market benefits from labor unions and bargaining. In such situation wages tend to be rigid and unemployment compensation available. On the other hand, higher wages may induce unemployment and thus lead to a higher entrepreneurial-activity rate. Furthermore, in competitive labor markets, wages, entrepreneurship, and firm size are dependent on the underlying technology. Being involved in entrepreneurship requires entry sunk costs (training, education, etc) and uninsured risk taking, which in turn requires a risk premium and the profit motive.

In this section we differentiate between entrepreneurs and non-entrepreneurs with respect to labor-market status. Given the low nascent rate in Palestine, the cross-section data on around 2000 individuals points to certain trends. It is worth noting that generally Palestinian labor markets are not unionized, unemployment is high (24.5% in 2009), labor-force participation for men is around 68% and for women it is nearly 15%, and returns to education are higher for women than they are for men (Daoud (in progress)).

Figure 5.1: Responses to Occupational Choice (Entire Sample, %)



The occupational-choice model is shown through analysis of the responses to the following question: If you had a choice, would you prefer to work as an employee in the public sector/government, a small enterprise in the private sector, or for a

medium- to large-size enterprise in the private sector, etc?. The responses of the sample to this question are shown in Figure 5.1 above.

From the general adult population, nearly 46% prefer to be owners of a business, which shows

a strong preference for independence and entrepreneurship. The second most popular option is working for the public sector, which provides job security and retirement benefits.

Very few people choose employment in the private sector. TEA entrepreneurs were asked the same question, and their answers are distributed as follows:

Table 5.1: Occupational Choice Differences (%)

Occupational Choices	TEA		EB	
	NO	YES	NO	YES
Employee in public sector/government	37.94	2.31	38.73	1.53
Employee in a small private enterprise	8.53	0.59	8.48	0.64
Employee in a medium to large private enterprise	2.76	0.16	2.65	0.27
As owner of your own business	39.60	6.26	40.88	4.97
House wife	1.83	0.00	1.78	0.05

Entrepreneurs, whether in the early stage or in an established business, are most likely to choose to be owners of a business - 6.26% of the adult population is involved in TEA and prefers to own a business. The same figure stands at 4.97% for established businesses. Again, the second best choice for entrepreneurs is public-sector employment. This emphasizes the fact that no clear differences exist between entrepreneurs and non-entrepreneurs in their occupational choices - they both tend to prefer to own a business or work in the public sector.

5.1 Labor-Market Status and the Gender Gap

The data in Table 5.2 below is multi-dimensional because it simultaneously focuses on gender and entrepreneurship status, and on entrepreneurship stage. First, the authors examine the entire sample for gender and labour-force status dimensions. Almost 51% of the entire adult population is outside the labour force (retired, homemaker, or student), which leaves 49% of the population in the labour force (employed + unemployed). The highest percentage of the entire adult population consists of homemakers (34%), who are almost all women. The proportionate distribution for men is usually close to 2-to-1 in each category, except for homemaker (0-to-1) and students (1-to-1). That is, the proportion of men who work part time is nearly 2 times that of women. In addition, 15% of all men and 14% of all women are students. The number of males in each category compared to that of females is largest in part-time employment with a ratio of 11-to-1; in the rest

of the cases, the ratio ranges between 0-to-1 (homemakers) and 5.6-to-1 (retired and not working). In short, the majority of men are employed (either in a full-time or part-time capacity), while most women are homemakers.

The next question to tackle is whether these patterns change when considering entrepreneurship status. The second and third panels of Table 5.2 address this issue. For non-TEA male entrepreneurs, the distribution is similar to the general sample one, while TEA male entrepreneurs differ because a higher proportion of them become self-employed at the expense of other categories. A similar story can be told regarding females: non-TEA female entrepreneurs are distributed across the work-status categories in the same way as the entire sample, but TEA female entrepreneurs become less concentrated in the homemaker category and more employed in the self-employed category. Male/female gender differences are most evident for the student category - non-TEA entrepreneurs' counts for students yield a ratio of 1.2 males for each female. On the other hand, the ratio stands at 5.5-to-1 for TEA entrepreneurs. The reason is that the number of female early-stage entrepreneurs drops drastically when compared to non-entrepreneurs.

Once again, the statistics for non-established business entrepreneurs resemble those for the entire population sample distribution across work-status categories. The numbers for the entrepreneurs, however, are different. The self-employment category rises from 8% to 75% for non-EB entrepreneurs, that is for each 100 EB entrepreneurs, there are 75 entrepreneurs

who are self-employed, which is to be expected because these are established businesses. The corresponding figure for women is 64% with a significant drop in the homemaker category. Another drop for female EB entrepreneurs can be noticed in the student category, which is more noticeable for females than for males. The gender gap is most evident in the full- and part-time employment categories; there are almost 25 male for each female EB entrepreneur as compared to a ratio of 4-to-1 among non-EB entrepreneurs. For

TEA entrepreneurs, the ratio stands at 9-to-1, and for the entire sample - at 4.2-to-1. What are the implications of such a rise in the male/female ratio in EB? The gender distribution for non-EB entrepreneurs is nearly 50-to-50, whereas 83% of the EB entrepreneurs are men, and only 17% are women. Given that there is also a drop in every category, especially that of homemaker, and a rise in self-employment, the difference comes from full-time and part-time employment.

Table 5.2: Labor-Market Status and Gender Differences

All Sample	GEM harmonized work status with self-employed	Gender						Group Total	
		Male			Female			Count	Col %
		Count	Row %	Col %	Count	Row %	Col %		
	Full: full or part time	345	81	32	82	19	8	427	21
	Part time only	150	91	14	14	9	1	164	8
	Retired, disabled	57	85	5	10	15	1	67	3
	Homemaker	1	0	0	716	100	71	717	34
	Student	160	55	15	130	45	13	290	14
	Not working, other	187	85	18	33	15	3	220	11
	Self-employed	164	85	15	30	15	3	194	9
Group Total		1065	51	100	1015	49	100	2080	100
TEA									
NO	Full: full or part time	308	80	33	78	20	8	386	20
	Part time only	144	91	16	14	9	1	158	8
	Retired, disabled	55	86	6	9	14	1	64	3
	Homemaker	1	0	0	707	100	72	708	37
	Student	149	54	16	128	46	13	277	15
	Not working, other	176	86	19	29	14	3	205	11
	Self-employed	87	84	9	16	16	2	103	5
Group Total		920	48	100	981	52	100	1901	100
Yes	Full: full or part time	37	90	25	4	10	12	41	23
	Part time only	6	100	4	0			6	3
	Retired, disabled	2	64	1	1	36	3	3	2
	Homemaker	0		0	9	100	26	9	5
	Student	11	85	8	2	15	6	13	7
	Not working, other	11	73	8	4	27	12	15	9
	Self-employed	78	85	54	14	15	41	92	51
Group Total		145	81	100	34	19	100	179	100
EB									
No	Full: full or part time	321	80	34	81	20	8	402	21
	Part time only	147	92	16	12	8	1	159	8
	Retired, disabled	56	85	6	10	15	1	66	3
	Homemaker	1	0	0	710	100	72	711	37
	Student	157	55	17	130	45	13	287	15
	Not working, other	187	85	20	33	15	3	220	11
	Self-employed	77	84	8	14	16	1	91	5
Group Total		947	49	100	991	51	100	1937	100
Yes	Full: full or part time	23	96	20	1	4	4	24	17
	Part time only	3	59	2	2	41	8	5	3

All Sample	GEM harmonized work status with self-employed	Gender						Group Total	
		Male			Female			Count	Col %
		Count	Row %	Col %	Count	Row %	Col %		
Retired, disabled	1	100	1	0			1	1	
Homemaker	0		0	6	100	24	6	4	
Student	3	100	3	0			3	2	
Self-employed	88	85	75	16	15	64	104	73	
Group Total	118	83	100	25	17	100	143	100	

5.2 Economic Impact

This section highlights the economic impacts of entrepreneurship. In particular, the authors estimate its contributions to raising GDP, reducing unemployment, and creating jobs.

5.2.1 GDP

The impact of entrepreneurship on GDP depends on 3 main factors, as illustrated in

Table 5.3. While the first column reports the range of the value of informal investment, the second column reports the proportion of respondents in that category. The third and the fourth columns show the expected start-up capital required (column 4) and how much personal money is provided, respectively.

Table 5.3: The Distribution of Responses to Financing-Entrepreneurship Questions

Value US \$	Informal funds in the last 3 years (%)	Personal money invested (%)	Start-up capital required (%)
0-5,000	66.75	53.59	11.53
5,001-10,000	6.70	17.73	8.19
10,001-15,000	9.69	17.67	
15,001-20,000			2.94
20,001-25,000	3.31	3.62	24.42
25,001-30,000	6.68		
30,001-35,000		3.62	
35,001-40,000	3.51		1.43
40,001-45,000			2.89
45,001-50,000			4.38
50,000+	3.31	3.77	42.77
N	30	28	70
Mean	25,175.5	16,353.0	42,340.0

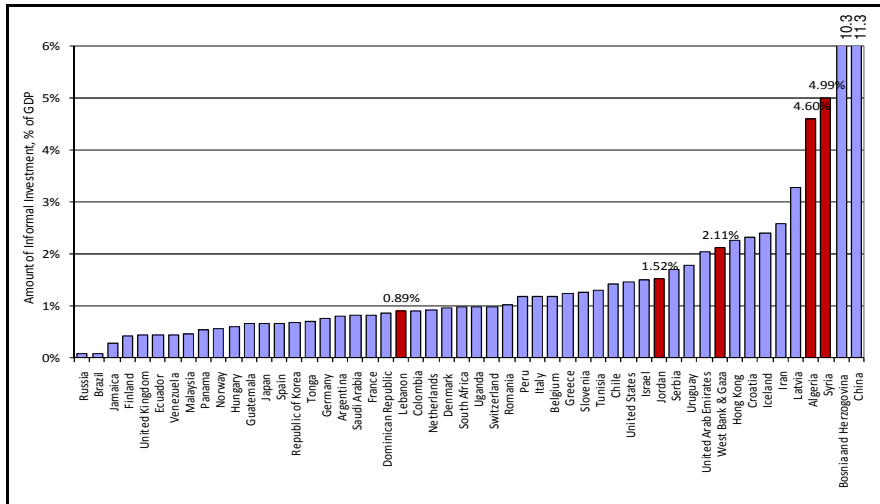
It can be seen that the average size of the informal investments made over the last three years is US\$25,176, indicating an annual average of around US\$8,400, a moderate number. Given that the prevalence rate of informal investment is 1.45% and that the Palestinian adult population consists of 1.99 million people (as of 2009), then one would have expected that informal investments amounted to 4.7% of real GDP in 2009¹⁷. The average start-up capital requirement in

Palestine is US\$42,340, which is prohibitive given the financing opportunities available. The proportion of start-up capital requirement to be provided personally is roughly 39%.

The GEM 2009 Global Report harmonizes GDP data for comparability across countries. The relative size of informal investment is provided in Figure 5.2 below.

¹⁷ This proportion was calculated by multiplying the annual informal investment by the prevalence rate for the population of 18-64 years and divided by real GDP.

Figure 5.2: Amount of Informal Investment as a % of GDP per Capita (PPP), GEM 2009



Note: Too many missing values to include data for Yemen.
Source: From GEM 2009 Global Report, p. 53.

Clearly, the informal investment share of GDP is among the top quintile, behind Syria and Algeria in the MENA region. This is a reflection of the tight knit relationship that binds families and relatives; it also may reflect an abstinence from using commercial financial intermediaries for religious reasons or credit rationing on the part of financial intermediaries.

5.2.2 Unemployment and Job Creation

The net effect of entrepreneurship on unemployment is hard to calculate for two reasons: first, the business-creation rate does not show whether job creation comes from the pool of unemployed or employed, or from outside the labour force, for that matter; and, second, the business-discontinuation rate does not tell whether loss of jobs occurs among the labour pool or from individuals exiting the labour force altogether. The one number that can be calculated is the difference between job creation and job losses. Based on evidence in Table 3.2, a total of 312,707 entrepreneurial jobs and 391,172 employee jobs were created just before 2009. The total number of jobs stands at roughly 703,880. Although this figure seems optimistic (compared to the labor-market situation in 2009)¹⁸, the main point of the authors is to emphasize the

difference between job creation and job loss. The estimate of job loss due to discontinuation is 65,150 positions, leaving a large net job-creation figure.

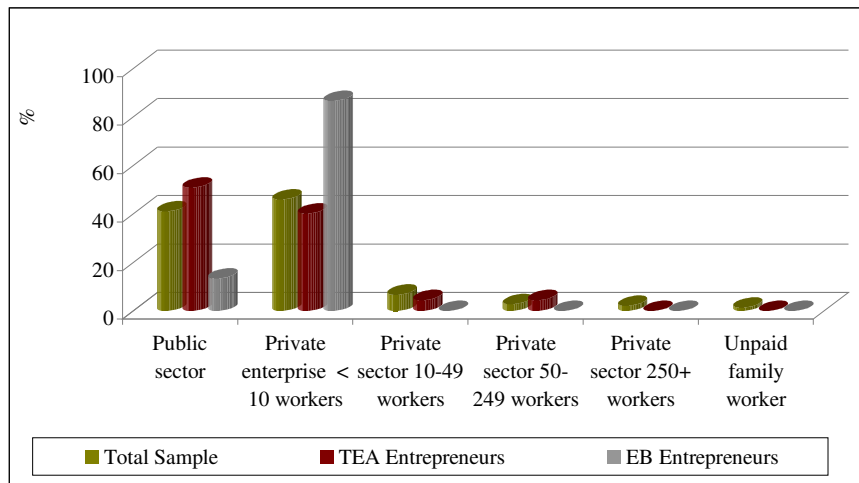
5.3 Sector of Employment

In comparison with Table 3.6, the actual distribution of TEA- and EB-entrepreneurs sector of employment is presented in Figure 5.3 below.

It is evident that the actual distribution of employment for the adult population is either in the public sector or private micro-enterprises. Among the entrepreneur population, the EB entrepreneurs are mostly working in private micro-enterprises, while the TEA entrepreneurs are nearly equally split between the public sector and private micro-enterprises. This pattern is coherent with the findings of Table 3.6 above.

¹⁸ Using 2.5 (sample average) for the average number of the employees per EB.

Figure 5.3: The Distribution of Work Sector Employment



6. Financing Entrepreneurship

Financing entrepreneurial activities is a crucial element in the entrepreneurship realm. Therefore, accessing financial resources, providing them (from either personal or external sources), and sustaining their inflow are the most significant challenges faced by entrepreneurs in the developing countries and in Palestine, in particular. Palestinians find it hard to gain access to “cheap and reasonable” credit since they do not have a minimum level of guarantees and collateral. Makhool (2005) argues that 72.3% of the requested loans are refused mainly because of insufficient guarantees and collateral, while Abdelkarim (2010) points out that interest rates, which can reach up to 24%, and high commissions and management fees are the main obstacles in this context. The above-mentioned difficulties, in addition to other possible costs, do not allow entrepreneurial ideas to be transformed into viable projects and initiatives in order to bring about the potential benefits. Equally important, the baby businesses are also in need of financial resources so that they sustain and grow, or at least survive. This chapter tackles these aspects of entrepreneurial activities by presenting the findings generated from the APS. It focuses on start-up capital

requirements of nascent entrepreneurs, the projected sources of financing, the expected rate of return to the entrepreneurial investments, and, finally, the characteristics and prevalence rates of informal investors in Palestine.

6.1 Start-up Capital and Requirements

One of the first questions which any entrepreneur asks him-/herself is how much money he/she needs to start a business. By definition, start-up capital is comprised of all money and financial resources needed to cover the expenses and costs associated with transforming an entrepreneurial idea into a real business through investment. The median start-up capital required by a Palestinian nascent entrepreneur stands at the equivalent of US\$9,943¹⁹. Around 41% of the nascent enterprises require US\$5,000 or less to start, and 51% require less than US\$10,000. Only around 10% of enterprises need start-up capital of more than US\$100,000. In addition to showing these figures, Table 6.1 illustrates the percentage of entrepreneurs willing to invest their own money, and to what extent they can finance their own projects. In other words, the table below demonstrates the so-called financing gap.

Table 6.1: Distribution of Start-Up Capital Needs and Self-Supplied Capital, Palestine

Start-Up Capital Size Groups-US\$	Distribution of Start-Up Capital Needs by Size	Average Amount of Start-Up Capital by Size	Distribution of Self-Supplied Capital by Size	Average Amount of Own/ Personal Start-Up Capital by Size
< \$5,000	41.40%	2,237	53.60%	2,319
\$5,000-\$9,999	10%	8,369	18%	6,877
<i>Subtotal</i>	51.40%	5,303	71.30%	4,598
\$10,000-\$19,999	12.90%	14,915	17.70%	12,843
\$20,000-\$49,999	21.80%	30,607	7.20%	28,587
\$50,000-\$100,000	4.20%	80,789	0.00%	-
> \$100,000	9.70%	465,910	3.80%	245,474
Total	100.00%	602,826	100.00%	296,101
Median Amount	\$9,943		\$4,971	
Mean Amount	\$42,340		\$16,353	

Source: Adult Population Survey, Palestine, 2009

¹⁹ Since most of the new start-ups are relatively small; using the median instead of the mean is more appropriate to minimize the effect of a few very large investments.

As can be seen, Palestine's level of self-financing is low with a self-financing ratio of total start-up capital of only 39%, leaving 61% for external sources of financing. This relatively low level of self-financing points to the existence of a significant financing gap. The median for the personal investments made by nascent entrepreneurs stands at US\$4,971. Under closer investigation of the data, one notices that around half of the nascent entrepreneurs (53.6%) plan to invest only up to US\$5,000 of their own/personal money (average of US\$2,319), 71% plan to invest up to US\$10,000, and 89% intend to invest up to US\$20,000.

Furthermore, as Table 6.2²⁰ shows, the enterprises and businesses of male nascent entrepreneurs have on average of 4.1 times the start-up capital requirements of those businesses initiated by female entrepreneurs. Thus, not only are male TEA rates higher with a wide gender gap, but also male projects are larger in size. Analysis of other demographic variables demonstrates that nascent entrepreneurs in the 35-44 age group, in the post-secondary education group, and in the upper level of income group exhibit average start-up capital requirements greater than the mean for all nascent entrepreneurs as their businesses generally need more capital-intensive start-ups.

Table 6.2: Ratio of Start-Up Capital Requirements to Overall Mean by Demographic Variables
(% unless Otherwise Noted)

	Total Start-up Capital	Start-up Capital invested by nascent entrepreneur
Mean (as benchmark, \$)	21345	43960
Gender		
Male	1.15	1.18
Female	0.28	0.20
Education		
Some Secondary	0.16	0.27
Secondary Degree	0.40	0.38
Post Secondary	3.14	2.04
Graduate Experience	0.58	0.48
Income		
Lowest 33%tile	0.06	0.24
Middle 33%tile	0.28	0.29
Upper 33%tile	1.23	1.34
Missed/cannot code	0.52	0.51
Age		
18-24	0.09	0.12
25-34	0.46	0.62
35-44	4.00	2.17
45-54	0.39	0.90
55-64	0.00	1.18

Source: Adult Population Survey, Palestine, 2009.

Note: Calculations are based on the distance of averages for each group from the overall average funding amounts. The overall average is given a value of 1.00.

6.2 Sources of Financing

As seen previously, there is a substantial financing gap which entrepreneurs seek to close by looking for other sources of financing, in addition to their personal investments. As a result, entrepreneurs seek

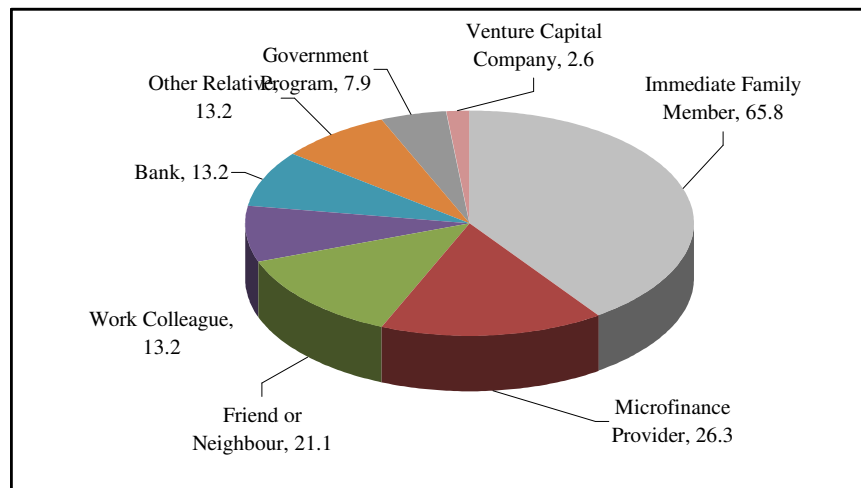
monetary assistance from their families, relatives, micro-finance institutions, and government programs among others. Figure 6.1 shows that in Palestine, nascent entrepreneurs are more likely to receive

²⁰ This table is adopted from the GEM report on Egypt (2008)

financing from immediate family members (65.8%) than from alternative sources. Indeed, this fact is self-evident, considering the close relationship among family members. 26.7% of nascent entrepreneurs receive financing from micro-finance providers, 21.1% from a friend or neighbour,

and 13.2% from a work colleague, a bank, or more distant relatives. However, only 7.9% of the nascent entrepreneurs receive funds from a government program and only 2.6% from the venture-capital companies²¹ reflecting the low level of financial sophistication in the Palestinian financial markets.

Figure 6.1: Nascent Entrepreneurs Receiving/ Expecting to Receive Start-Up Financing from Selected Sources, Palestine



Source: Adult Population Survey, Palestine, 2009.

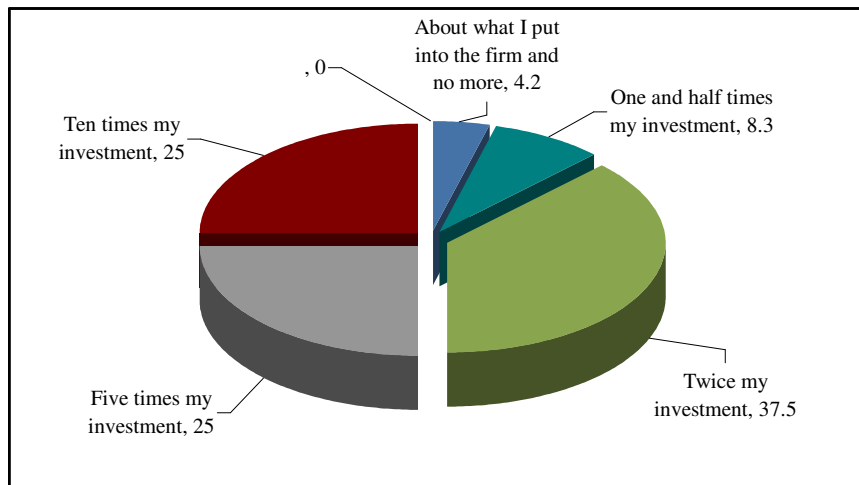
6.3 Expected Rates of Return

Nascent entrepreneurs were asked about the expected payback on their investments and start-up capital in the next ten years. The general trends shows, as reflected in Figure 6.2, that nascent entrepreneurs are very ambitious and optimistic regarding the returns they expect to generate in this time period. 37.5% of the Palestinian nascent entrepreneurs anticipate doubling their investment, 25% to increase it five-fold, and another 25% to increase it ten-fold. The expected payback over the ten-year period is transformed into an annual return with a maximum expected annual return of 90% in those ten years. The weighted expected

average is then calculated by taking the relative frequency for each payback category as a weight for that group. This shows that Palestinian nascent entrepreneurs have an expected return equivalent to 37%. Such a return, though one of the lowest in the MENA region, remains high compared to the interest levels on bank saving accounts, for instance. Finally, set against the significant gender gap in Palestine, male nascent entrepreneurs have higher expectations of returns on their personal investment than their female counterpart since the expected male average is six times the expected female one.

²¹ It is worth mentioning that apart from two financing sources (immediate family members and micro finance providers), the rest has less than 10 cases.

Figure 6.2: The Distribution of Nascent Entrepreneurs across Payback Expected on Their Start-Up Capital Investment, Palestine



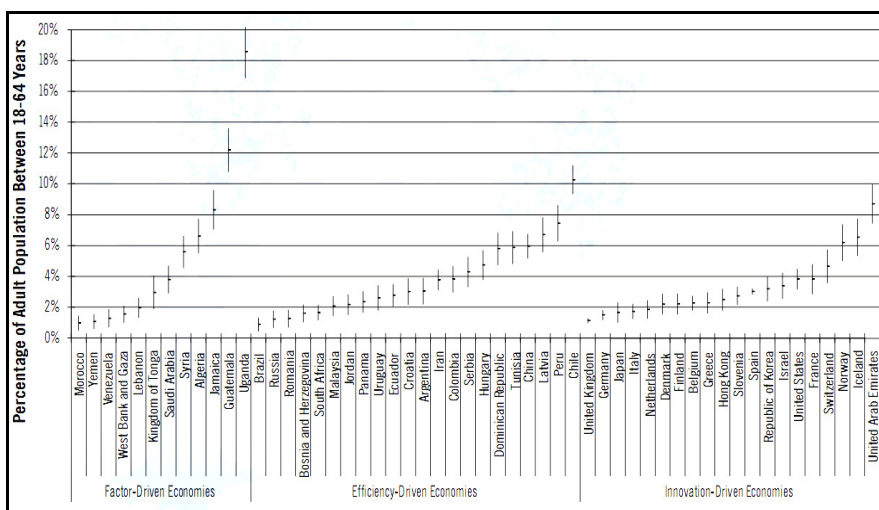
Source: Adult Population Survey, Palestine, 2009.

6.4 Informal Investments

According to the GEM definition, informal investors comprise of those adults who have, in the past three years, personally provided funds for a new business started by someone else. Informal investors can be motivated by an economic incentive (acquiring a return on their investment) and by a moral motive (helping out a family member or an acquaintance to start up a business in order to generate income for this person's family). Generally, informal investors are a vital source of financing across the GEM countries. A look at the global picture shows that the average

prevalence rate of informal investors in the adult populations of 54 GEM countries stands at around 3.9%, ranging from 0.5% of the adult population in Morocco to 18.6% in Uganda. At the MENA level, the average prevalence rate includes 2.8% of the adult population, ranging from 0.5% in Morocco to 6.6% in Algeria. Overall, it is noticed that entrepreneurs in countries with higher start-up costs need more informal investment. Figure 6.3 depicts the informal investors' prevalence rates for 54 nations in 2009 by phase of economic development.

Figure 6.3: Informal Investors Prevalence Rates for 54 Nations in 2009, by Phase of Economic Development, Showing 95-Percent Confidence Intervals



Source: Global Entrepreneurship Monitor 2009, p.52.

In Palestine, the prevalence rate of informal investors among 18-64 year-olds is only 1.5%. Only around 2% of men and less than 1% of women have invested in someone else's new business in the past three years. This prevalence rate is clearly below the global and the regional averages. In absolute values, the invested amounts are relatively small - nearly 73% of informal investments in the past three years were less than US\$10,000, with an annual average of US\$8,400²². Around 20% of informal investments were between US\$10,000 and US\$30,000 in the past three years, while around 3% were between US\$30,000 and US\$50,000. These amounts may appear immaterial in relation to their share of GDP which does not exceed 2.1%. It is worth mentioning here that this is partially due to the lack of formal investment channels and the relatively recent restrictions on money

transfers. These figures are reflected in Table 5.3, which shows the informal investments in Palestine in the past three years by size.

From a demographic perspective, Table 6.3 presents the profile of the informal investors according to their gender, age, income, and educational level. The table shows that the highest rates are among males (2.2%), adults in the 45-54 years age group (2.1%), the upper-third household income group (1.9%), and those with some graduate experience (6.9%). Additionally, the majority of informal investors are in the 25-34 years age group (31.6%), followed by the 18-24 years age group (25.2%). The average age of informal investors is 36 for males and 27 for females. Of the informal investors in Palestine, over 71% are from the top-third income group, and the majority have either secondary or post-secondary degrees (75%).

Table 6.3: Informal Investment Prevalence Rates by Demography, Palestine

Demographic Variable	Prevalence Rate	Demographic Variable	Prevalence Rate
Gender		Income Level	
Male	2.2	Lowest 33%tile	1
Female	0.9	Middle 33%tile	1.1
Age Group		Upper 33%tile	
18-24	1.3	Educational Level	
25-34	1.6	Some Secondary	0.9
35-44	1.7	Secondary Degree	1.8
44-54	2	Post Secondary	3.5
55-64	0.6	Graduate Experience	6.9

Source: Adult Population Survey, Palestine, 2009.

Lastly, it becomes obvious that informal investors in Palestine prefer to offer money to their close family members. Over half of the informal investors (51.6%) provide financing to close family members, while 27.7% give money to friends or neighbours, and 20.7% to other relatives. However, informal investors are less optimistic than nascent entrepreneurs themselves about the expected rate of return on their investment. 41.1% of them do not expect a return, and another 7% expect to get back their initial

investment. While 17.2% expect to get twice what they have invested, 20.7% anticipate getting their investment five-fold, and 13.8% getting it ten-fold. In a nutshell, the overall expected rate of return on informal investments in Palestine lies at around 19%, with the lowest expected return on investment among close family members (-1.5%) and the highest return in investment on other relatives (48.3%).

²² The median investment (not mentioned in Table 5.3) is \$ 2,983 is much below the mentioned average over the past 3 years.

7. Perceptions

Indeed, it does not suffice to have entrepreneurial opportunities and entrepreneurial capabilities without a perception of the opportunities and the capabilities first. Variations among nations regarding the perceptions and attitudes can partially explain the differences in the TEA rates. At the practical level, the APS considers to what extent adults perceive the existence of good opportunities to start a business in the area where they live. It also questions whether they have the required skills and abilities, and whether the fear of failure would prevent them from establishing a business. The APS also takes into consideration the social interaction and the cultural influence on entrepreneurs to examine to what degree individuals see entrepreneurship as a desirable career choice and whether entrepreneurs enjoy a high social status. In addition, special attention is given to the media in highlighting successful entrepreneurial activities, since this will help to create and spread a culture of entrepreneurship and will assist to transform the creative ideas and make the link between the ideas-holders and the money-holders. However, it is obvious that having positive attitudes and perceptions toward entrepreneurs will not automatically lead to higher level of entrepreneurship in Palestine. There are other factors to be taken into account, including an assessment of the opportunity costs (comparing the expected returns on entrepreneurship to the expected returns on alternative occupations) and a risk-reward assessment (the big perceived risks

involved in starting a business associated with higher expected returns). The following sections will present some of the attitudes and perceptions among entrepreneurs and the population are vital elements and the results concerning the attitudes and perceptions toward entrepreneurs and entrepreneurship.

7.1 Fear of Failure and Skill Perception

Within the cultural and individual contexts, the APS generates figures to quantify the national attitudes toward and perceptions of entrepreneurship. These statistics, presented in Table 7.1, show the percentage of inhabitants who consider starting a new business a desirable career choice, the proportion of adults who think that successful entrepreneurs enjoy a high social status and level of respect, the popularity of entrepreneurship, and media coverage for new businesses. In Palestine, around 42% of the 18-64 year-olds see themselves as being prevented from starting a business due to fear of failure, compared to the average of 35% in factor-driven economies. This percentage is one of the highest within the 54 GEM countries, together with Yemen and Tonga (GEM, 2009). Indeed, this is not surprising, considering the high level of instability and the continuous obstacles imposed by the occupation, in addition to the weaknesses in the legal framework and law enforcement and the absence of other vital prerequisites for initiating and sustaining a business (World Bank, 2009)²³.

Table 7.1: Entrepreneurial Attitudes and Perceptions in Palestine, 2009

Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18-64 Population (%)	Average (un-weighted) for Factor-driven Economies
<i>Individual Context</i>		
Sees good opportunities for starting a business in the next 6 months (perceived opportunities)	49.9	51
Has the knowledge, skills and experience to start a business (perceived capabilities)	55.6	66
Fear of failure would prevent starting a business	41.9	35

²³ Doing Business 2010: West Bank and Gaza, World Bank and IFC, Washington D.C. Available at: <http://www.doingbusiness.org/Documents/CountryProfiles/WBG.pdf>

Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18-64 Population (%)	Average (un-weighted) for Factor-driven Economies
Knows someone who started a business in the past 2 years	42.4	48
Cultural Context		
Entrepreneurship is a good career choice	88.0	81
Frequent stories about successful new businesses in the media	52.0	66
Successful entrepreneurs have high status and respect in the country	78.1	77
Intends to start a business in the next 3 years	26.2	33

Source: Adult Population Survey, Palestine, 2009

Furthermore, many Palestinian entrepreneurs believe they have the necessary knowledge, skills, and experience to initiate a business (56% compared to an average of 66% in factor-driven economies). This perception is vital since it reflects the entrepreneurs' level of confidence, which plays a crucial role in enhancing and reinforcing the practice of entrepreneurship, having a multiple effect on the return and creativity of the enterprises. Around 50% of entrepreneurs see good opportunities for starting a business in the next 6 months, which is almost equal to the factor-driven economies' average. Although

entrepreneurship is considered a good career choice (88%), and the level of intent to start a business in the next three years is acceptable (26%), Palestinians are not exposed frequently enough to stories about succeeding entrepreneurs in the media (78%). This number is almost identical to the average for factor-driven economies, but Palestine still ranks among the lowest in the MENA area. The fact that the media focuses on politics, conflicts, and macro-issues rather than on local and micro-issues can explain the loss of successful entrepreneurial stories among the "big" stories.

Table 7.2: Joint Probability Distribution of Business Start up Expectations and its Determinants, 2009

		Expects to start-up in the next 3 years	
		No	Yes
Fear of failure would prevent entrepreneur to start a business	No	44.2%	13.5%
	Yes	34.8%	7.6%
Has the required knowledge/skills to start a business	No	41.7%	4.2%
	Yes	37.6%	16.6%
Starting a business is considered as a good career choice	No	8.6%	3.5%
	Yes	59.9%	27.9%
Persons growing a successful new business receive high status	No	15.2%	6.5%
	Yes	52.9%	25.3%
Knows a person who started a business in the past 2 years	No	47.2%	8.6%
	Yes	31.9%	12.2%
Sees good opportunities for starting a business in the next 6 months	No	43.4%	7.8%
	Yes	35.5%	13.3%

Source: Adult Population Survey, Palestine, 2009

Consequently, analysis of the complex relationship among the intentions to start a new business in the next three years, the perception of fear of failure, and possessing the required knowledge and skills shows that the highest proportion of adults intending to start a business belongs to the group that does not fear failure (7.6% vs. 13.5%). Moreover, most of the adults who plan to start a business think that they have the knowledge and skills necessary to initiate a business. This implies that the optimistic self-perception leads to a higher probability of intending to start a business (4.15% vs. 16.59%).

By examining other variables related to the perceptions and attitudes, one can conclude that in Palestine the perception of starting a business as a good career choice is higher among those who intend to start a business. This implies that the higher the proportion who view private business as a good career choice, the higher the intention to start a business in the next three years (3.5% vs. 28%). In addition, the idea that a successful entrepreneur has a high social status is considerably higher among those who intend to start a business in the next three years when compared to those not intending to start a business (25% vs. 6.5%). Lastly, among those who intend to initiate an enterprise in the next three years, knowing a person who opened a business in the past two years, and seeing good opportunities for starting a business in the next six months, are associated with more positive perceptions to engage in a new business. In other words, the more individuals know others who started a business in the past two years, and the more they see good opportunities for starting a business in the next six months, the higher the intention to do so themselves in the next three years.

Examination of the joint probability distribution in Table 7.2 shows that the expectations to start a business in the next three years are not statistically independent from the other variables²⁴. The trends which are easily identifiable in the table are the following:

- ✧ The probability that fear of failure would prevent one from starting a business, holding “expects to start-up in the next three years” constant, is 42.4%, and the probability that fear of failure would not prevent one from starting a business is 57.7%. However, one could argue that among those who fear failure, a larger proportion would not expect to start a business in the next three years.
- ✧ The majority of respondents believe they have the required skills to start a business, but most people who plan to open a business in the next three years also believe that they have the skills necessary to do so.
- ✧ Almost 60% of the respondents do not expect to start a business while believing that doing so is a good career choice. In the meantime, only 28% believe that initiating a business is a good career choice and plan to start a business in the near future. So essentially, the majority just believe that starting a business is a good career choice. The conditional probability indicates that the likelihood that a person who sees starting a business as a good career choice, given that he/she expects to open a business in the next 3 years, is 88.9%. On the other hand, the probability that a person who regards opening a business as a good career choice, given that he/she does not expect to start a business in the next 3 years, is 87.4%, which implies a positive relationship between perceptions about business careers and business start-up expectations.
- ✧ Finally, only slightly over half of the respondents are pessimistic about business opportunities in the next 6 months (51.2%). Using the conditional probability, one finds that the probability that a person will see good opportunities, given that she/he expects to start a business, is 63%, but the probability that a person sees good opportunities, given that she/he does not expect to start a business, is only 45%. This shows the positive correlation between the two variables.

Furthermore, from a gender perspective, females exhibit a higher rate of fear of failure (45% compared to 38% for males), and only 36.5% of females believe that they have the required knowledge and skills to start a new

²⁴ For each 2X2 matrix in Table 7.2, the product of the marginals does not equal the joint probability at least for 1 of the cells implying statistical dependence.

business in comparison with 75% for males. These results may help explain why females have lower level of intention to start a new business in the next three years, although they have slightly more favourable perceptions of the cultural context for entrepreneurship than males.

Overall, the APS results reveal that the highest overall levels of intent to start a business are among the 18-24 year-olds with post-secondary or higher education, those in the upper-third income group, and those working part time and students.

7.2 Sources of Advice and Start-Up Training

Entrepreneurs seek advice from different people, institutions, and specialized

professionals. The level of dependency on one source rather than another varies based on the nation's and individuals' beliefs and the availability and credibility of different types of advice providers. In the case of Palestine, the top sources of advice for early-stage entrepreneurs comprise of parents (used by 64%), other family members or relatives (used by 67%), and friends (used by 71%). They make little use of other sources, especially experts. Few receive advice from lawyers, accountants, public business advisory institutions, or business development services provided by NGOs or business associations, although 15% seek advice from suppliers and 16% from customers. At the level of baby businesses, the same trends can be observed. Table 7.3 presents these figures.

Table 7.3: Source of Advice for Early-stage Entrepreneurs and Baby Business in Palestine, 2009

Source of Advice	Nascent Enterprise	Baby Business
Spouse	43.7	45.3
Parents	64	51.2
Other family or relative	66.7	61
Friends	71.2	55.6
Current work colleague	17.8	13.9
Somebody who is starting a business	25.6	6.7
Somebody with business experience	42.7	19.3
Supplier	14.8	14.9
Customer	16	18.6

Source: Adult Population Survey, Palestine, 2009

As presented in chapter 4, training on starting a business at primary and secondary school or even later interacts with the level of fear of failure and with the acquisition of the necessary knowledge and skills to open a business. In Palestine, the data show that such training has a positive impact on the fear of failure, as participating in training at primary or secondary school minimizes the fear of failure to start a business from 42% to 31%, while training after completing school minimizes it from 42.7% to 36%. Moreover, the training is indeed positively correlated

with acquiring the required skills and knowledge to start a business: training at primary or secondary school increases the perception of having the necessary knowledge and skills to start a business from 55% to 74%, while training after completing school increases this perception from 52% to 81%. These findings imply that more attention needs to be paid to the central role of training in enhancing the perceptions of and attitudes toward development in the entrepreneurial activities.

8. Conclusions and Recommendations

The introduction to this volume argues that the Palestine (in this context, the West Bank and Gaza Strip) is a country that has been living under occupation since 1967. This prolonged occupation has left significant marks on the Palestinian infrastructure and psychology. Prior to the Israeli occupation, the economy was mostly agrarian with some services, but after 1967, the fact that many Palestinians worked in Israel replaced the immediate need to care for the land and attend school. Furthermore, Israel disallowed Palestinians to upgrade their infrastructure and to establish trade relations with the rest of the world. An extreme case of dependency on the Israeli economy ensued in regards to trade, employment, public finance, public utilities, and communications. A decade later, Israeli colonies began to spread within the West Bank and Gaza (to be removed from Gaza in 2005) and to pose a major obstacle to peace. While the establishment of the Palestinian National Authority in 1994 constituted a reversal in such trends, the main features of dependency are still in effect to the present day. The PNA is now partially responsible for administering the occupied territory, but has very little manoeuvring freedom in setting and implementing policies.

Keeping the above points in mind is of crucial importance for understanding the main conclusions of this report. The key findings of the report are summarized below in the order they appear in the text:

- ✧ Compared to MENA-7 and other factor-driven economies, perceived opportunities in Palestine are higher, whereas perceptions of capabilities and entrepreneurial intentions are lower. Consequently, a plausible result could be lower intentions to start a business in the near future.
- ✧ Among the 54 countries reported in GEM's 2009 Global Report, Palestine ranks 28th, just above the median. The median TEA rate of 8.5%, which belongs to Syria, is very close to Palestine's rate of 8.6%. Palestinian EB rate stands at 6.8% and is lower than the MENA-7 average of 8.2%.
- ✧ The number of entrepreneurs in the established-business stage in Palestine is larger than the one in both the nascent- and baby-business stages. This is merely due to the fact that the established-business rate is higher than the rate in both the nascent and the baby business.
- ✧ Reynolds (2009) reports that there exist 388 million active TEA entrepreneurs in the 76 GEM countries; the figure for MENA-7 is 11.157 million, of whom 176,000 are Palestinians.
- ✧ The opportunity motive among TEA entrepreneurs is higher for MENA-6 (66.6%) than for Palestine (61.7%). For necessity-driven entrepreneurs, the rates are 26.9% and 37.2%, respectively, reflecting the dire economic conditions in Palestine.
- ✧ Discontinuation rates are significantly higher in Palestine than in MENA factor-driven economies for both the TEA and the EB. The reasons behind this trend are not any different in Palestine than in other MENA countries.
- ✧ The impact of discontinuation on the economy is large, resulting in the loss of jobs for nearly 30,000 entrepreneurs and 55,000 employees. This causes the number of lost jobs due to business discontinuation to constitute 8.4% of the labour force.
- ✧ Most entrepreneurs are males (a 4-to-1 ratio in the TEA), 25-44 years of age, with secondary or some secondary education. TEA rates are lowest among the youth (18-24 years), reflecting low access to finance and involvement in education. Furthermore, the majority of the adult population does not receive training, whether at school or elsewhere. However, the proportion of entrepreneurs who have received training is higher than that among the entire population. This is an important finding as training could be one of the determining factors in reducing fear of failure and thus encouraging entrepreneurship.
- ✧ There exist no clear differences between entrepreneurs and non-entrepreneurs in their occupational choices: they tend to generally prefer to own businesses or work in the public sector.
- ✧ TEA entrepreneurs, whether male or female, are more likely to be self-employed. Female non-entrepreneurs tend

to be homemakers, and males ones tend to be part- or full-time employees.

- ✧ The proportion of male and female students not involved in early-stage entrepreneurship is roughly the same; however, male student entrepreneurs are nearly 5 times more than female ones, showing a lower female participation in early-stage entrepreneurial activity.
- ✧ The mean start-up capital requirement is US\$42,300, of which an average of US\$16,400 is supplied personally, and an average of US\$8,400 comes from informal sources.
- ✧ Informal investment share of GDP is in the top quintile among the 54 GEM countries, and third after Syria and Algeria in the MENA region. Job creation due to entrepreneurship is significantly higher than job loss due to discontinuation.
- ✧ Families and relatives play an important role in financing entrepreneurship, much more so than market financing mechanisms.
- ✧ The fear of failure is a strong factor in discouraging entrepreneurship in Palestine: 42% of the respondents report that fear of failure would stop them from starting a business compared to 35% in factor-driven economies.
- ✧ Skill perception is also lower in Palestine (56%) than it is in other countries with factor-driven economies (66%). This can also be one of the factors responsible for low activity rates.
- ✧ A higher proportion of those who intend to start a business do not fear failure. Moreover, more of the adults who plan to start a business believe they have the knowledge and skills required to do so.
- ✧ There exists evidence for a positive relationship between perceptions about business careers and business start-up expectations.

Based on these findings, authors recommend the division of policies that encourage entrepreneurship into short-run and long-run actions. In the short run, more attention needs to be given to the following areas:

First: The survey finds that low profitability and financing problems constitute the main reasons for business discontinuation, which have a sizable impact on unemployment and GDP. As a result, research is necessary in

order to identify and eliminate the factors that lead to low profitability. Entrepreneurial financing programs are required to facilitate business survival.

Second: Since the repercussions of the occupation play a crucial role in discouraging entrepreneurship, an investigation into the nature of the inhibiting factors is needed to limit their impact.

Third: Although work by institutions like Paltrade has been instrumental in identifying external markets, more work is necessary in this regard as few firms work with predominantly foreign customers.

Fourth: Because entrepreneurial activity rates are necessity-driven, and are higher in the rural areas, every effort needs to be made to exploit opportunities in the urban centres, to encourage high-technology entrepreneurial activity, and to fulfil the desire of owning a business.

Fifth: Although family and friends constitute an important support network, professional assistance may prove to be more efficient, so the idea of expert business counselling should be promoted.

In the long run, the study recommends the following:

First: More programs in the educational system like the one mentioned in the study will help raise the prospectus of entrepreneurs and thus encourage entrepreneurship.

Second: The media should be encouraged to increase coverage of entrepreneurial activities to solidify the profile of entrepreneurs. Particularly, special attention is to be given to female entrepreneurs in order to reduce the major gap between male and female entrepreneurs.

Third: Business training can play a crucial role in reducing not only fear of failure but also business discontinuation. Thus, such programs need to be funded in order to not increase the already high costs of setting up a business in terms of start-up capital requirements.

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